

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Three Rivers</u>	County St. Joseph
Audit Date June 30, 2005	Opinion Date August 19, 2005	Date Accountant Report Submitted To State: December 28, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 750 Trace Centre Way	City Portage	State MI	ZIP 49002
Accountant Signature 			

City of Three Rivers, Michigan St. Joseph County, Michigan

Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2005

PREPARED BY:

CITY OF THREE RIVERS

FINANCE DEPARTMENT

City of Three Rivers, Michigan

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Introductory Section

December 6, 2005

To the Citizens of the City of Three Rivers,
the Honorable Mayor, and City Commissioners

The Comprehensive Annual Financial Report of the City of Three Rivers for the fiscal year ended June 30, 2005 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City administration. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the City of Three Rivers. All disclosures necessary to enable a reader to gain an understanding of the City of Three Rivers' financial activities have been included.

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the City of Three Rivers organizational chart, and a list of principal officials. The financial section includes the combining financial statements and the general purpose financial statements and schedules, as well as the auditor's report on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

This reporting includes all funds of the City of Three Rivers. The City of Three Rivers provides a full range of traditional government services. The City of Three Rivers also provides for construction, repair, and maintenance of streets and storm drainage systems, and provides parks and recreational and sports activities for its citizens.

The City is responsible for the administration and enforcement of housing and building codes, as well as economic and community development activities. In accordance with the State of Michigan's statutes, the city treasurer is responsible for the collection of all property taxes for the City and overlapping governmental jurisdictions, including St. Joseph County, Glen Oaks Community College, Three Rivers Intermediate School District, and the Three Rivers Public Schools.

In addition to general government activities, the City Commission exercises, or has the ability to exercise, oversight of the Downtown Development Authority, the Industrial Development Authority, the Brownfield Redevelopment Authority, and the Three Rivers Public Library. These organizations are included in the component unit's columns in the basic financial statements.

City Location and Character

The City of Three Rivers encompasses an area of about 3.8 square miles in west central St. Joseph County, which is situated in the south central portion of Michigan's Lower Peninsula, bordering the state of Indiana. The City is approximately 30 miles south of Kalamazoo, 90 miles southwest of Lansing, the state capital, and 150 miles west of Detroit. The city of Sturgis, also located in St. Joseph County, lies about 15 miles to the southeast. Located where the St. Joseph, Rocky, and Portage Rivers converge, the City is a balanced mix of residential, commercial, and industrial properties in an attractive area of rolling hills and many lakes, affording numerous opportunities for a variety of year-round recreational activities. Three major highways (U.S. 131 and Michigan Highways 60 and 86) pass through Three Rivers, and I-94 lies only 20 miles north. The area is served by Conrail, various motor freight carriers, Three Rivers Airport (private flights), and Kalamazoo County Airport (freight and commercial service).

The City was founded in the early 1830s and acquired the name of Three Rivers because of the confluence of the St. Joseph, Portage, and Rocky Rivers. The City's tax base is diverse with residential, commercial, industrial, and utility valuations accounting for approximately 32.15 percent, 27.84 percent, 38.47 percent, and 1.54 percent, respectively, of its total taxable value for the fiscal year ended June 30, 2005.

The 2000 population of the City of Three Rivers was 7,328, a decrease of 1.14 percent below the 1990 population of 7,413. As small communities compete for residents, City administration must provide reasons for people to want to live in and visit Three Rivers. The three rivers that converge in the Three Rivers downtown area need to be viewed by our citizens as assets to be protected and preserved while enjoying their benefits.

Glen Oaks Community College at Centreville is located seven miles southeast of the area, and five two-year and four-year colleges and universities are available in Kalamazoo. Three Rivers Area Hospital (65 beds), Three Rivers Manor at River Forest (101 beds), and Heartland Heath Care Center (100 beds) provide the area with local medical care and extended care, respectively, while Kalamazoo's two full-service hospitals and nearly a hundred specialized agencies provide many area residents with every aspect of quality medical care.

The City of Three Rivers was incorporated in 1917 as a "Home Rule City" pursuant to the provisions of Act 279, Public Acts of Michigan, 1909, as amended. In accordance with its charter, the City is governed by a mayor and six-member City Commission who are elected on a non-partisan basis for two-year terms. The City Commission appoints a city manager, who serves at its pleasure and is the chief administrative officer of the City.

Economic Outlook

The City of Three Rivers is situated in southwestern Michigan between the two major markets of Detroit and Chicago, Illinois. Two lesser markets located to the north and south, respectively, are Kalamazoo and South Bend, Indiana that are connected by U.S. 131, a component of Michigan's commercial highway network. Three Rivers is located in St. Joseph County, one of the fastest-growing communities in southern lower Michigan.

The Three Rivers area draws from a three-county labor force of more than 160,000 workers, which provides a skilled labor pool for new industries. The diverse local economy includes automotive, machine tool, metal fabrication, plastics, and paper companies. Given the diversity of the industrial base, the Three Rivers area continues to enjoy an unemployment rate below both the state and national averages and that rate is expected to remain below those averages in the future.

Major employers include American Axle Manufacturing, makers of automotive drive shafts and other parts for the automobile industry, which maintains a current employment level of 855 people. Meijer, Inc., a major retailer, has 181 full-time and 242 part-time employees. Johnson Corporation (143) and Armstrong Machine Works (320) are makers of rotary steam joints and traps used by the paper industry. Eaton Corporation (300) manufactures mirror actuators, while Lasco Industries (200) and Crocker Limited (140) are makers of fiberglass and plastic products. Weyerhaeuser Company (135) manufactures corrugated boxes and cartons.

The Three Rivers Area Enterprise Park is located at the intersection of M-60 and U.S. 131. North American Products, KDF Fluid Treatment Co., and Tamara Tool have located in the City's industrial park. Leads on prospective tenants for the park are continually being pursued. The success of the Three Rivers Area Enterprise Park is the result of a joint community effort. While the City continues to be actively involved in economic development initiatives, partners in the Enterprise Park development included the Three Rivers Area Chamber of Commerce, the Three Rivers Industrial Development Authority, and a local government coalition consisting of the townships of Fabius, Lockport, and Park, and the City of Three Rivers. Additional funding came from private and public sources. Enterprise Park is seen as a community asset and has strong support from local business and area residents.

Major Initiatives

The City of Three Rivers continually reviews and modifies its economic development and community enhancement goals. Small communities are involved in competitions for individuals as surely as they compete for corporate investment. In this way, community amenities and quality features are no longer frills - they are essential to a community's ability to market itself successfully. Three Rivers is a unique community with many assets (a new high school, natural water features, a historic downtown, etc.). We diligently work toward leveraging our assets, funding sources, and resources to tackle large projects and improve our surroundings. The City participates with the St. Joseph County Economic Development Corporation (SJC EDC) as well as the South-Central Michigan Planning Council (SMPC). On July 9, 2002, the City Commission reviewed and concurred with the SMPC Comprehensive Economic Development Strategy (CEDS). The SJC EDC is currently working on updating their Economic Development Strategy. The City's mayor sits on the SMPC board and the city manager sits on the SJC EDC Board. Collaboration is the foundation of our organization. Our Community Council slogan is "Together We're Better". This premise permeates through our community, allowing us to be successful! The following information summarizes our Community Development Strategy.

Three Rivers is an older community and as such we have an older housing stock. In an effort to provide affordable and livable housing and improve our overall quality of life, we are attempting to improve our existing housing stock, both owner-occupied and rental units. Our infrastructure is also aging and is in need of upgrades or repair. The City has 45 miles of road surface to maintain within the City limits. Since asphalt has an approximate 15-year life span, we need to improve or replace three miles of streets per year to keep ahead of the deterioration. On August 6, 2003, the citizens of Three Rivers approved a 15-year millage levy to be utilized for street and sidewalk replacements and upgrades. A streets and sidewalks committee has been established to assist in assessing the areas around the city that need immediate attention. The committee consists of representatives of each district and a representative of city administration.

Short-term and Long-term Objectives

We have instituted and will continue to develop housing programs to increase the value and integrity of our housing stock and provide safe, affordable housing, thus improving our neighborhoods and quality of life. The City was awarded a grant with H.O.M.E. funds in the amount of \$252,000 from the Michigan State Housing Development Authority (MSHDA) under an Acquisition, Development, and Rehabilitation (ADR) Program. The City has acquired four residential properties for the homebuyer activity portion of this grant. Contractors completely renovated two homes at 508 Maple Street and 304 East Bennett, and contractors constructed two new homes at 717 South Lincoln and 611 Swartz Street. The properties are now for sale to eligible low- to moderate-income level families. Qualifying families may receive additional assistance from MSHDA to cover the purchase price of the property. Upon sale, the City will be reimbursed for all of the expenses incurred for the initial purchase price of the property and the construction costs incurred while improving the property. This has been a great opportunity for the City to be involved in the improvement of our local housing stock and to assist qualifying families with affordable housing. There are several interested parties that are attempting to secure funding for the purchase of these properties and the City hopes to have all properties sold by the end of the next fiscal year. The City has just completed a Rental Rehabilitation Program (RRP) that specifically targeted the downtown area with additional incentives. The St. Joseph County Economic Development Corporation along with the County Housing Task Force recently completed a Housing Assessment and Strategy Report for the County. Rental rehabilitation was one of the suggestions made for the City of Three Rivers. The City of Three Rivers has been part of the housing task force for some time and understands that improving our housing stock is an important aspect of our viability. The City was recently awarded another CDBG Grant in the amount of \$341,400. The City plans to improve eight apartments in the City's historic central business district, with 51 percent of the tenants having incomes at or below 80 percent of the area median income and the property owners must rent restrict 51 percent of the units during the five-year affordability period. Property owners must provide a minimum of 25 percent match.

- The City currently has an active Brownfield Redevelopment Authority (BRA) Board which will continue to pursue redevelopment of the City's abandoned and underutilized Brownfield areas. The BRA has been instrumental in the administration of a \$200,000 Environmental Protection Agency (EPA) Brownfield Redevelopment Grant for the City. This grant was completed during this fiscal year. The Brownfield Redevelopment Authority has established a Tax Increment Financing District and has established a Revolving Loan Fund with the taxes recaptured from those properties that have a redevelopment plan approved by the City Commission.
- The City of Three Rivers is continuing to work on an Airport Expansion and Industrial Park project which will create over 100 new jobs, with an average wage rate of \$15.00 per hour, within the next five years. The project provides new infrastructure (water sewer, roadway) and brings additional property into the City limits. The estimated total project cost is \$3,145,850. The City has issued bonds in the amount of \$400,000 for this project along with \$335,500 contributions from various funds. The City has secured CDBG grants in the amount of \$1,105,350 and a grant for infrastructure in the amount of \$1,080,000 from the Economic Development Administration. The Michigan Bureau of Aeronautics provided \$229,915 for reimbursement against the land acquisition cost of \$1,346,330 for the 210 acres adjacent to the existing airport property to be used for the airport industrial park. The City has executed an Act 425 land transfer agreement with Lockport Township that transferred the entire airport property into the City. The project is nearly complete and there is one building that has already been constructed in the Airport Industrial Park. There are discussions ongoing for the purchase of land or to lease land in the Park.
- The City has secured a CDBG grant in the amount of \$500,000 for the Downtown East Lot Improvement project. This project will provide additional parking to the east of the historic downtown and improve the access to local businesses located in the surrounding area. The existing road will be relocated closer to the river and the underground utilities, both private and public, will be upgraded. The total project costs are estimated over \$2,000,000. The City has issued bonds in the amount of \$630,000 and various funds have made contributions to cover the costs of this project. The design phase has been completed and partial construction is now underway. There has been considerable work performed by the administration and the City's engineering firm to do some redesign on the retaining wall portion. The bids received for this portion of the project were more than expected, so administration is exploring ways to minimize the cost and not compromise the scope of the project. The immediate benefit will be the aesthetic improvement and livability of the area. There is also a long-range effect on the surrounding neighborhoods where improvements take place. A domino effect happens when people begin taking pride in their homes and their neighborhoods. Others in the neighborhood feel and see the changes and follow suit. The parking lot project along with our other improvement programs (Rental and Housing rehabilitation, Brownfield Redevelopment, and Obsolete Property Rehabilitation, etc.) not only leverages individual investment but also has long-range implications to our entire community. The overall changes the project will provide include aesthetics, lighting, and parking. This will have a huge effect on perception as it relates to the ease of shopping downtown, safety concerns, and overall community pride. The positive effects of this project will permeate throughout the community and have a profound and far-reaching effect on all ages, races, and genders. Downtown is everyone's business and its success will benefit all.

- The City of Three Rivers has sold a 32-acre parcel to Welton Development to begin another subdivision located off of Portage Avenue. “Meadowbrook Farms” will consist of 20 single-family dwellings in Phase I. The City intends to issue special assessment bonds in the amount of \$585,000 in early September to defray the cost of the public improvements relating to this project. The City intends to be an active participant and assist in any way possible to create more quality housing for our community.

Financial Information

The management of the City of Three Rivers is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft, or misuse and to assure that adequate accounting data are compiled to allow for the preparation of financial reports in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Controls

The Three Rivers City Commission adopts an annual budget in accordance with the State of Michigan Uniform Budgeting Act, P.A. 621 of 1978. The City's fiscal year is July through June. The annual budget for the next fiscal year is adopted on or before the second regular meeting in June.

Budgetary controls include the fact that expenditures cannot exceed revenue for the year plus beginning fund balance. An encumbrance system is in place to ensure that this control is not violated. In addition, the City Commission must approve all budget amendments made throughout the fiscal year.

Cash Management

The City's investment policies follow the legal requirements of municipalities covered under Michigan Public Act No. 20 of 1943, as amended. We maximize the use of funds and ultimately try to increase the return on our dollars. The City's investments during the year consisted of cash management funds, certificates of deposit, and government agency securities.

Risk Management

The City of Three Rivers is a member of the Municipal Liability and Property Pool, which is sponsored by the Michigan Municipal League. It is operated according to the policies adopted by the Pool Board of Directors, and in accordance with Michigan Public Acts 138 (1982) and 36 (1988). The pool provides risk management, claims administration, legal defense, and reinsurance services for its members.

As a member of the Municipal Liability and Property Pool, the City of Three Rivers has liability coverage of up to \$10,000,000 per occurrence. We are actively involved in risk control through supervisory and employee training, facilities inspections, and utilization of the Michigan Municipal Leagues' Risk Control Staff.

Independent Audit

An annual audit of the accounting and financial records of the City is conducted by independent certified public accountants in accordance with Michigan Act 2 of the Public Acts of 1968, as amended, the Department of Treasury Bulletin for Audits of Local Units of Governments in Michigan, and the Federal Standards for Audit of Governmental Organizations, Programs, Activities and Functions. The auditors are required to audit all funds and account groups of the City in accordance with generally accepted auditing standards. The firm of Plante & Moran, PLLC, has performed audit services for the fiscal year ended June 30, 2005. Their opinion is presented in the financial section of this report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Three Rivers for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. This was the tenth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to conform to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of the Comprehensive Annual Financial Report could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department. The preparation of the report required a major effort from the accounting staff and we would like to express our appreciation to everyone who assisted and contributed to the effort.

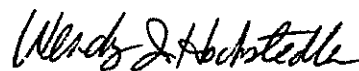
We wish to acknowledge the professional manner in which the audit was conducted by Plante & Moran and express our appreciation for their assistance.

We also thank the City Commission for the commitment and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Sincerely,



Joseph A. Bippus
City Manager



Wendy J. Hochstedler, CPA
Finance Director/City Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Three Rivers,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

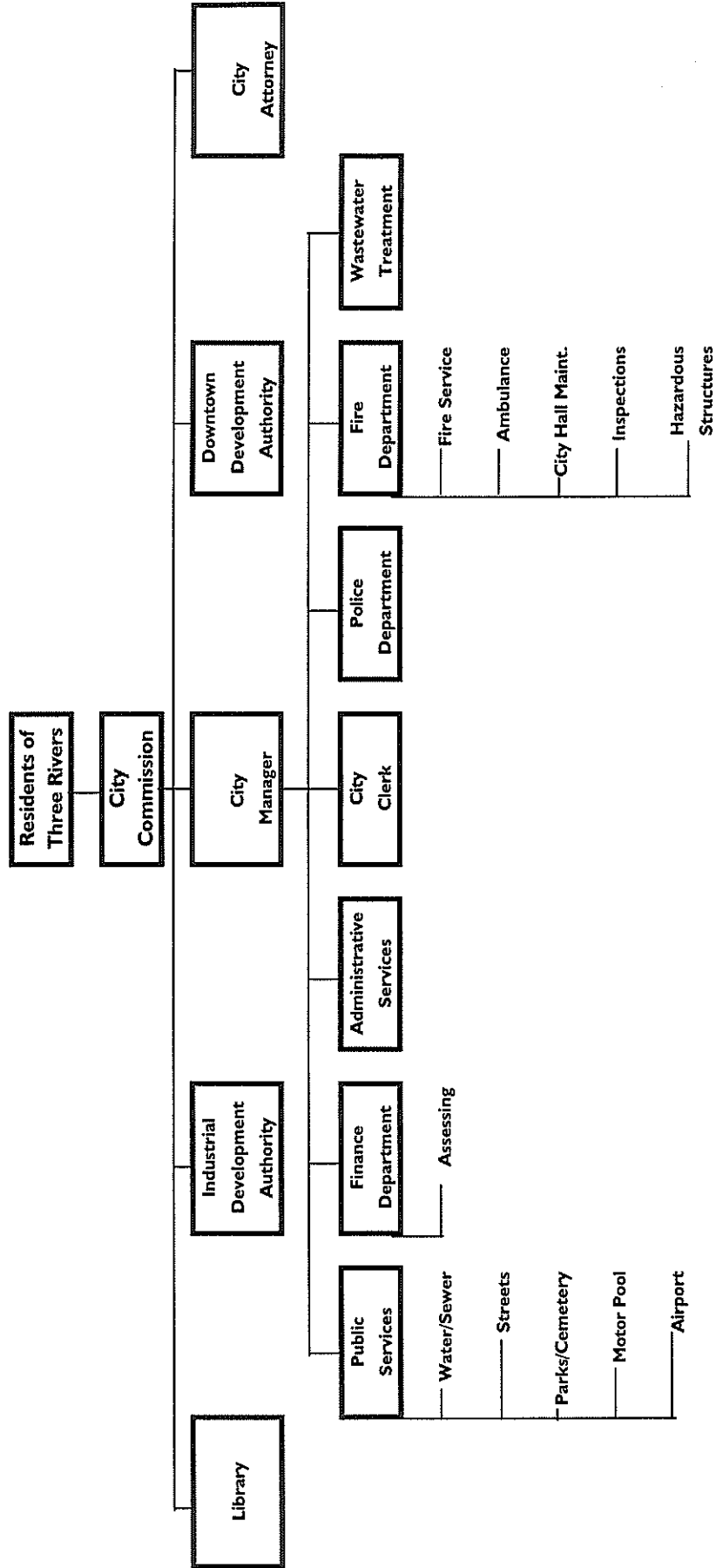
President

Jeffrey R. Enen

Executive Director

City of Three Rivers

Organizational Structure



City of Three Rivers, Michigan

List of Principal Officials

Legislative

Mayor	Thomas J. Lowry
Mayor Pro Tem	David York
First District Commissioner	Rowdy Keith
Second District Commissioner	Elbert Foster
Third District Commissioner	Kurt Webb
Fourth District Commissioner	David York
At-Large Commissioner	Darryl Griffith
At-Large Commissioner	Kenneth K. Cochran
At-Large Commissioner	Scott Schneider

Administrative

City Manager	Joseph A. Bippus
City Attorney	J. Patrick O'Malley
City Finance Director/Treasurer	Wendy J. Hochstedler
Public Services Superintendent	Mark Glessner
Fire Chief	Danny Cross
Police Chief	Earl Stark
Administrative Services Director	Lou Ann Moord
Wastewater Treatment Plant Superintendent	Jim Rozeboom
City Clerk	Barbara Redford
City Assessor	Dale Hutson

Financial Section

Independent Auditor's Report

To the City Commission
City of Three Rivers, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Three Rivers, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Three Rivers' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Three Rivers as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Three Rivers' basic financial statements. The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.



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To the City Council
City of Three Rivers, Michigan

The budgetary comparison schedules, combining balance sheets, and combining statements of revenue, expenditures, and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis and retirement systems schedules of funding progress, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2005 on our consideration of the City of Three Rivers' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The City adopted Governmental Accounting Standards Board Statement Number 40 during the current year. As a result, these financial statements present new financial information within the financial statement footnotes related to deposits and investments.

Plante & Moran, PLLC

August 19, 2005

City of Three Rivers, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Three Rivers, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$36,365 this year. The City reacted by closely monitoring all expenditures because of the planned use of reserves during the year, which resulted in an undesignated fund balance decrease of \$44,974 in the City's General Fund.
- The City has started a number of major projects around the City. Capital improvement bonds were issued last fiscal year in the amount of \$2,600,000 and funding from state and federal grants was used to defray most of the costs. The projects are the Airport Expansion and Industrial Park, East Downtown Parking Lot, American Axle and Manufacturing Company infrastructure improvements, reconstruction of Portage Avenue, and Welton Housing Development. The grand total estimated to complete these projects is \$8,032,850. The only major project that is still in progress is the East Downtown Parking Lot. The City also issued capital improvement bonds this fiscal year in the amount of \$2,310,000 to cover the majority of the cost of reconstructing Broadway Street. This project was completed by the fiscal year end.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Three Rivers, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date with a comparison to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 3,094,058	\$ 4,873,594	\$ 3,520,762	\$ 3,740,248	\$ 6,614,820	\$ 8,613,842
Noncurrent assets	11,405,174	6,363,669	15,816,152	13,976,813	27,221,326	20,340,482
Total assets	14,499,232	11,237,263	19,336,914	17,717,061	33,836,146	28,954,324
Liabilities						
Current liabilities	898,039	1,184,102	213,529	183,856	1,111,568	1,367,958
Long-term liabilities	5,537,970	2,960,866	6,290,453	6,646,188	11,828,423	9,607,054
Total liabilities	6,436,009	4,144,968	6,503,982	6,830,044	12,939,991	10,975,012
Net Assets						
Invested in capital assets -						
Net of related debt	5,434,651	2,968,974	9,581,152	7,411,813	15,015,803	10,380,787
Restricted	1,633,499	3,471,114	-	-	1,633,499	3,471,114
Unrestricted	995,073	652,207	3,251,780	3,475,204	4,246,853	4,127,411
Total net assets	<u>\$ 8,063,223</u>	<u>\$ 7,092,295</u>	<u>\$ 12,832,932</u>	<u>\$ 10,887,017</u>	<u>\$ 20,896,155</u>	<u>\$ 17,979,312</u>

The City's combined net assets increased 16.2 percent from a year ago - increasing from \$17,979,312 to \$20,896,155. As we look at the governmental activities separately from the business-type activities, we can see that there was an increase of 15.16 percent in net assets. The major component of the increase was the City's purchase or construction of infrastructure improvements around the City.

City of Three Rivers, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in the net assets during the current year with a comparison to prior year:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 957,355	\$ 698,732	\$ 3,410,251	\$ 3,302,208	\$ 4,367,606	\$ 4,000,940
Operating grants and contributions	684,419	274,479	-	-	684,419	274,479
Capital grants and contributions	1,811,093	1,412,840	-	-	1,811,093	1,412,840
General revenue:						
Property taxes	3,005,491	2,998,127	210,866	176,056	3,216,357	3,174,183
State-shared revenue	956,288	1,571,248	-	-	956,288	1,571,248
Unrestricted investment earnings	197,038	25,276	112,818	(31,107)	309,856	(5,831)
Miscellaneous revenue	383,043	401,743	-	380	383,043	402,123
Transfers	(1,656,141)	75,141	1,656,141	(75,141)	-	-
Total revenue	6,338,586	7,457,586	5,390,076	3,372,396	11,728,662	10,829,982
Program Expenses						
General government	1,302,550	1,395,801	-	-	1,302,550	1,395,801
Public safety	1,943,784	1,964,599	-	-	1,943,784	1,964,599
Public works	704,170	1,955,623	-	-	704,170	1,955,623
Community and economic development	1,107,106	1,286,882	-	-	1,107,106	1,286,882
Interest on long-term debt	24,663	23,244	-	-	24,663	23,244
Water and wastewater	-	-	2,921,232	2,792,362	2,921,232	2,792,362
Ambulance	-	-	720,433	640,370	720,433	640,370
Total program expenses	5,082,273	6,626,149	3,641,665	3,432,732	8,723,938	10,058,881
Change in Net Assets	\$ 1,256,313	\$ 831,437	\$ 1,748,411	\$ (60,336)	\$ 3,004,724	\$ 771,101

Governmental Activities

The City's General Fund revenues have increased by approximately \$32,140, which represents 0.8 percent over last year. Compared to last year, the property taxes remained at the same level, licenses and permits increased by \$41,450 mostly due to higher cable franchise fees received, federal grants received decreased by \$69,090, state-shared revenue and grants decreased by \$35,675, and charges for services increased by \$25,351 mostly due to an increase in airport farm lease income. The investment interest decreased by \$36,755, due to the reduced amount of fund balance available for investment, while other revenues increased by \$105,537 mainly due to the sale of City property.

Expenditures increased by \$81,202 when compared to last year. The City had major repairs made to City Hall and a city-wide property revaluation performed this fiscal year, but other than those nonrecurring costs, the City closely monitored its spending in all other areas to ensure expected levels of service.

City of Three Rivers, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

Ambulance Fund

The Ambulance Fund had operating revenues increase by \$18,603 since last year. The increase is primarily due to increased control by management of the billing and collections procedures. The operating expenses increased by \$59,009, which was mainly due to an increase in personnel costs. The City purchased a new ambulance during the fiscal year.

Water/Wastewater Fund

The Water/Wastewater Fund had an increase of \$89,440 in operating revenues since last year. This was due to the scheduled rate increase of both the water and sewer portion of the utility bills. The operating expenses increased by \$209,162. The major factor causing the increase in total operating expenses is more personnel and supplies used to continue efforts to replace old meters and try to recover lost revenue due to water loss. There was operating income of \$171,593, which was \$53,618 less than the previous year.

Component Units

Component units include funds such as the Industrial Development Authority, Downtown Development Authority, Brownfield Redevelopment Authority, and the City Library.

General Fund Budgetary Highlights

The General Fund pays for most of the City's governmental services. The most significant category is public safety that includes mostly police and fire, which incurred expenses of approximately \$1,902,785 in 2005 or 47.65 percent of the total General Fund expenditures.

The City has a Solid Waste millage of .4 mills that generated approximately \$70,000 to offset a portion of the annual cost of dump passes supplied to residents, and a portion of the annual city-wide leaf pickup program costs that are included in the total \$475,233 of Public Works activity expenditures for this fiscal year.

The \$411,330 total of other community services category of expenditures includes grant expenses for a Juvenile Justice Delinquency Prevention Program in the amount of \$23,377, the Parks department activity in the amount of \$227,054, and the City's general liability insurance in the amount of \$71,582. Other costs included under this caption are contributions for participation in the St. Joseph County Economic Development Group, City newsletter costs, and other professional fees relating to prospecting on new economic development leads.

As shown in the required supplemental information, the City had originally budgeted operational expenditures of \$3,985,145. During the course of the year, the City amended the budget and changed the budgeted expenditures to \$4,209,652, or an overall increase of \$224,507. Actual operating results ended up as an increase of \$8,092 of actual expenditures compared to original budget.

City of Three Rivers, Michigan

Management's Discussion and Analysis (Continued)

The significant budget to actual differences were a result of the following:

- The Special Projects activity budget was increased for the purchase of property in conjunction with the East Downtown Parking Lot project in error. The purchase was made from the appropriate project fund at the end of the fiscal year.
- The actual amount of retirement contributions were less than the budgeted amount for most General Fund activities.
- The airport activity budget included the local share on federal aviation projects that did not get started within this budget year.

Capital Asset and Debt Administration

The City continued making timely payments on revenue and general obligation bonds incurred to construct major capital-related improvements to infrastructure. There is a \$535,000 - 50 percent forgivable loan included in the City's overall debt obligations. The Michigan Economic Development Corporation will forgive \$10,000 for each new job created in the City's new airport industrial park within the next five years. For more detailed information on the capital assets and debt of the City, refer to Notes 3 and 5, respectively.

Economic Factors and Next Year's Budgets and Rates

The City's budget for the next fiscal year reflects another decrease in state-shared revenue. Current economic conditions in the state of Michigan have put statutory revenue-sharing payments at risk of being reduced. The City Commission has adopted a conservative budget that facilitates community priorities and quality services. The amount of any possible reduction is unknown and if it exceeds the projected decrease, the City will at that time address what measures will be taken to balance the budget. Through the tough economic times around the country, the City of Three Rivers has maintained the same level of personnel and services to the public.

The City intends to finalize the East Downtown Parking Lot project and the Meadow Brooke Farms project during the next fiscal year. Special Assessment bonds will be issued in the amount of \$585,000 to defray the cost of the public portion of the improvements at Meadow Brooke Farms".

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the city manager's office.

City of Three Rivers, Michigan

Statement of Net Assets June 30, 2005

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
Assets				
Cash and cash equivalents (Note 2)	\$ 199,734	\$ 15,026	\$ 214,760	\$ 78,318
Investments (Note 2)	1,866,689	2,249,013	4,115,702	429,297
Receivables - Net:				
Customers	-	765,862	765,862	16,034
Special assessments	548,070	-	548,070	-
Accrued interest	13,103	-	13,103	3,510
Other	792,124	15,195	807,319	-
Internal balances	(235,666)	235,666	-	-
Advances on construction	(240,000)	240,000	-	-
Due from other governmental units	114,487	-	114,487	-
Prepaid expenses and other assets	583,587	-	583,587	-
Capital assets - Net (Note 3):				
Assets not being depreciated	3,965,875	700,924	4,666,799	-
Depreciated assets	6,891,229	15,115,228	22,006,457	748,915
Total assets	14,499,232	19,336,914	33,836,146	1,276,074
Liabilities				
Accounts payable	342,718	47,902	390,620	3,496
Accrued and other liabilities	477,321	165,627	642,948	8,879
Deferred revenue	78,000	-	78,000	-
Noncurrent liabilities (Note 6):				
Due within one year	277,036	275,000	552,036	10,537
Due in more than one year	5,145,417	5,960,000	11,105,417	85,982
Compensated absences	115,517	55,453	170,970	-
Total liabilities	6,436,009	6,503,982	12,939,991	108,894
Net Assets				
Invested in capital assets - Net of related debt	5,434,651	9,581,152	15,015,803	652,396
Restricted:				
Highways and streets	864,101	-	864,101	-
Nonexpendable - Cemetery perpetual care	221,328	-	221,328	-
Special assessments	548,070	-	548,070	-
Unrestricted	995,073	3,251,780	4,246,853	514,784
Total net assets	<u>\$ 8,063,223</u>	<u>\$ 12,832,932</u>	<u>\$ 20,896,155</u>	<u>\$ 1,167,180</u>

City of Three Rivers, Michigan

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,302,550	\$ 904,823	\$ 101,452	\$ 1,496,345
Public safety	1,943,784	-	-	-
Public works	704,170	52,532	582,967	161,093
Community and economic development	1,107,106	-	-	153,655
Interest on long-term debt	24,663	-	-	-
Total governmental activities	5,082,273	957,355	684,419	1,811,093
Business-type activities:				
Water and wastewater	2,921,232	2,784,638	-	-
Ambulance	720,433	625,613	-	-
Total business-type activities	3,641,665	3,410,251	-	-
Total primary government	<u>\$ 8,723,938</u>	<u>\$ 4,367,606</u>	<u>\$ 684,419</u>	<u>\$ 1,811,093</u>
Component units:				
Industrial Development Authority	\$ 17,275	\$ -	\$ -	\$ -
Downtown Development Authority	85,416	-	-	-
Brownfield Redevelopment Authority	6,416	-	6,416	-
Library operations	572,423	11,065	80,340	-
Total component units	<u>\$ 681,530</u>	<u>\$ 11,065</u>	<u>\$ 86,756</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Interfund contributions				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year (as restated) (Note 9)				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ 1,200,070	\$ -	\$ 1,200,070	\$ -
(1,943,784)	-	(1,943,784)	-
92,422	-	92,422	-
(953,451)	-	(953,451)	-
(24,663)	-	(24,663)	-
(1,629,406)	-	(1,629,406)	-
-	(136,594)	(136,594)	-
-	(94,820)	(94,820)	-
-	231,414	231,414	-
(1,629,406)	-	(1,629,406)	-
-	-	-	(17,275)
-	-	-	(85,416)
-	-	-	-
-	-	-	(481,018)
-	-	-	(583,709)
3,005,491	210,866	3,216,357	393,826
956,288	-	956,288	3,600
197,038	112,818	309,856	23,277
383,043	-	383,043	97,684
(1,656,141)	1,656,141	-	-
2,885,719	1,979,825	4,865,544	518,387
1,256,313	1,979,825	3,236,138	(65,322)
6,806,910	11,084,521	17,891,431	1,232,502
\$ 8,063,223	\$ 13,064,346	\$ 21,127,569	\$ 1,167,180

City of Three Rivers

Governmental Funds Balance Sheet June 30, 2005

	Special Revenue Funds			Capital Project Funds			Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Major Street Fund	Municipal Street Fund	Airport Expansion	East Parking Lot	Special Assessments		
Assets								
Cash and cash equivalents	\$ 7,339	\$ 2,973	\$ 25,096	\$ -	\$ 53,408	\$ 39,368	\$ 10,159	\$ 138,343
Investments	114,728	395,454	528,938	-	514,845	-	312,724	1,866,689
Receivables:								
Special assessments	-	-	-	-	-	548,070	-	548,070
Accrued interest	151	793	4,944	-	2,696	-	4,519	13,103
Other	149,533	109,592	161,093	257,835	-	-	36,071	714,124
Due from other governmental units	114,487	-	-	-	-	-	-	114,487
Other assets	488,903	-	-	-	-	-	-	488,903
Inventories and prepaid expenses	94,684	-	-	-	-	-	-	94,684
Total assets	\$ 969,825	\$ 508,812	\$ 720,071	\$ 257,835	\$ 570,949	\$ 587,438	\$ 363,473	\$ 3,978,403
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ 50,893	\$ 3,246	\$ 233,158	\$ 4,376	\$ 35,356	\$ -	\$ 783	\$ 327,812
Accrued and other liabilities	127,371	1,242	102,270	145,607	54,045	39,368	4,786	474,689
Due to other funds	-	-	-	235,666	-	-	-	235,666
Advances on construction	-	-	-	-	240,000	-	-	240,000
Deferred revenue	81,685	-	161,093	153,655	-	548,070	349	944,852
Total liabilities	259,949	4,488	496,521	539,304	329,401	587,438	5,918	2,223,019
Fund Balances								
Reserved (Note 7)	23,453	-	-	-	-	-	-	23,453
Unreserved:								
Designated	166,111	-	-	-	-	-	-	166,111
Undesignated, reported in:								
General Fund	520,312	-	-	-	-	-	-	520,312
Special Revenue Funds	-	504,324	223,550	-	-	-	136,227	864,101
Capital Projects Funds	-	-	-	(281,469)	241,548	-	-	(39,921)
Permanent Funds	-	-	-	-	-	-	221,328	221,328
Total fund balances	709,876	504,324	223,550	(281,469)	241,548	-	357,555	1,755,384
Total liabilities and fund balances	\$ 969,825	\$ 508,812	\$ 720,071	\$ 257,835	\$ 570,949	\$ 587,438	\$ 363,473	\$ 3,978,403
Total Fund Balance - Governmental Funds								\$ 1,755,384
Amounts reported for governmental activities in the statement of net assets are different because:								
Capital assets used in governmental activities are not financial resources and are not reported in the funds								10,857,104
Special assessment receivables are expected to be collected over several years, and are not available to pay for current year expenditures								944,852
Long-term liabilities are not due and payable in the current period and are not reported in the funds								(5,537,970)
Internal Service Funds are included as part of governmental activities (net of capital assets and debt included above)								43,853
Net assets of governmental activities								\$ 8,063,223

City of Three Rivers

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	Special Revenue Funds			Capital Project Funds			Other	Total
	General	Major Street		Airport	East Parking	Special	Nonmajor	Total
	Fund	Fund	Municipal Street	Expansion	Lot	Assessments	Governmental	Governmental
							Funds	Funds
Revenue								
Property taxes	\$ 2,180,935	\$ -	\$ 824,556	\$ -	\$ -	\$ -	\$ -	\$ 3,005,491
Licenses and permits	96,743	-	-	-	-	-	-	96,743
Federal grants	97,452	-	-	1,426,345	-	-	-	1,523,797
State-shared revenues and grants	956,288	423,765	-	70,000	-	-	159,202	1,609,255
Charges for services	330,779	-	-	-	-	-	-	330,779
Investment income and rentals	26,553	16,902	97,274	5	27,251	9,404	19,648	197,037
Other	259,513	2,074	8,034	2,999	118,541	42,689	4,000	437,850
Total revenue	3,948,263	442,741	929,864	1,499,349	145,792	52,093	182,850	7,200,952
Expenditures - Current								
General government	1,166,864	-	-	-	-	-	-	1,166,864
Public safety	1,902,785	-	-	-	-	-	-	1,902,785
Public works	475,233	235,682	4,008,004	-	-	-	206,116	4,925,035
Community and economic development	-	-	-	882,072	394,215	42,489	8,699	1,327,475
Other community services	433,232	-	-	-	-	-	-	433,232
Total expenditures	3,978,114	235,682	4,008,004	882,072	394,215	42,489	214,815	9,755,391
Excess of Revenue Over (Under) Expenditures	(29,851)	207,059	(3,078,140)	617,277	(248,423)	9,604	(31,965)	(2,554,439)
Other Financing Sources (Uses)								
Contributions to other funds	-	-	(665,798)	(954,934)	-	(35,409)	-	(1,656,141)
Transfers in	-	-	-	-	-	-	90,123	90,123
Transfers out	(15,123)	(75,000)	-	-	-	-	-	(90,123)
Issuance of debt	-	-	2,310,000	-	-	-	-	2,310,000
Total other financing sources (uses)	(15,123)	(75,000)	1,644,202	(954,934)	-	(35,409)	90,123	653,859
Net Change in Fund Balances	(44,974)	132,059	(1,433,938)	(337,657)	(248,423)	(25,805)	58,158	(1,900,580)
Fund Balances - Beginning of year	754,850	372,265	1,657,488	56,188	489,971	25,805	299,397	3,655,964
Fund Balances - End of year	\$ 709,876	\$ 504,324	\$ 223,550	\$ (281,469)	\$ 241,548	\$ -	\$ 357,555	\$ 1,755,384

City of Three Rivers, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (1,900,580)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Asset purchases	5,171,072
Depreciation	(421,177)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (29,906)

Grant revenues are recorded in the statement of activities when earned; they are not report in the funds until collected or collectible within 60 days of year end 314,748

Long-term receivables recorded as revenue in the statement of activities when the contract initiated; they are not reported in the funds until collected or collectible within 60 days of year end 78,000

Debt payments are not reported as expenditures on the statement of activities 285,000

Decrease in accrued accumulated benefits 20,564

Debt proceeds are not reported as financing sources on the statement of activities (2,310,000)

Internal Service Funds are also included as governmental activities 48,592

Change in Net Assets of Governmental Activities \$ 1,256,313

City of Three Rivers, Michigan

Proprietary Funds Statement of Net Assets June 30, 2005

	Enterprise			Internal
	Ambulance	Water/ Wastewater	Total	Service
Assets				
Current assets:				
Cash and cash equivalents	\$ 12,659	\$ 2,367	\$ 15,026	\$ 61,391
Investments	345,294	1,903,719	2,249,013	-
Receivables:				
Customers	146,666	619,196	765,862	-
Other	3,384	11,811	15,195	-
Due from other funds	-	235,666	235,666	-
Advances	-	240,000	240,000	-
Total current assets	508,003	3,012,759	3,520,762	61,391
Noncurrent assets - Capital assets	196,906	15,619,246	15,816,152	383,088
Total assets	704,909	18,632,005	19,336,914	444,479
Liabilities				
Current liabilities:				
Accounts payable	12,752	35,150	47,902	14,906
Accrued and other liabilities	22,673	198,407	221,080	2,632
Current portion of long-term debt	-	275,000	275,000	27,036
Total current liabilities	35,425	508,557	543,982	44,574
Long-term debt - Net of current portion	-	5,960,000	5,960,000	28,417
Total liabilities	35,425	6,468,557	6,503,982	72,991
Net Assets				
Investment in capital assets - Net of related debt	196,906	9,384,246	9,581,152	327,635
Unrestricted	472,578	2,779,202	3,251,780	43,853
Total net assets	<u>\$ 669,484</u>	<u>\$ 12,163,448</u>	<u>\$ 12,832,932</u>	<u>\$ 371,488</u>

City of Three Rivers, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Enterprise			Internal
	Ambulance	Water/ Wastewater	Total	Service
Operating Revenue				
Charges for services	\$ 619,370	\$ 2,780,905	\$ 3,400,275	\$ 446,019
Other	6,243	3,733	9,976	-
Total operating revenue	625,613	2,784,638	3,410,251	446,019
Operating Expenses				
Operations	639,498	2,078,242	2,717,740	318,365
Depreciation	80,935	534,803	615,738	80,913
Total operating expenses	720,433	2,613,045	3,333,478	399,278
Operating Income (Loss)	(94,820)	171,593	76,773	46,741
Nonoperating Revenue (Expense)				
Investment income	9,983	102,835	112,818	1,009
Interest expense	-	(308,187)	(308,187)	(4,158)
Property taxes	210,866	-	210,866	-
Gain on disposal of assets	-	-	-	5,000
Total nonoperating revenues (expenses)	220,849	(205,352)	15,497	48,592
Income (Loss) - Before contributions	126,029	(33,759)	92,270	-
Capital Contributions from Other Funds	-	1,656,141	1,656,141	-
Change in Net Assets	126,029	1,622,382	1,748,411	48,592
Net Assets - Beginning of year (as restated) (Note 10)	543,455	10,541,066	11,084,521	322,896
Net Assets - End of year	<u>\$ 669,484</u>	<u>\$ 12,163,448</u>	<u>\$ 12,832,932</u>	<u>\$ 371,488</u>

City of Three Rivers, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Ambulance	Water/ Wastewater	Total	Internal Service
Cash Flows from Operating Activities				
Receipts from customers	\$ 616,154	\$ 2,526,069	\$ 3,142,223	\$ 446,019
Payments to suppliers	(630,402)	(2,083,397)	(2,713,799)	(326,813)
Net cash provided by (used in) operating activities	(14,248)	442,672	428,424	119,206
Cash Flows from Capital and Related Financing Activities				
Capital contributions from other funds	-	1,656,141	1,656,141	-
Purchase of capital assets	(147,561)	(2,110,012)	(2,257,573)	(49,838)
Proceeds from sale of capital assets	-	-	-	5,000
Advances for capital projects	-	300,000	300,000	-
Property taxes	210,866	-	210,866	-
Principal and interest paid on capital debt	-	(638,187)	(638,187)	(61,400)
Net cash provided by (used in) capital and related financing activities	63,305	(792,058)	(728,753)	(106,238)
Cash Flows from Investing Activities				
Interest received on investments	9,983	102,835	112,818	1,009
Purchase of investment securities	(64,516)	215,831	151,315	13,442
Net cash provided by (used in) investing activities	(54,533)	318,666	264,133	14,451
Net (Decrease) Increase in Cash and Cash Equivalents	(5,476)	(30,720)	(36,196)	27,419
Cash and Cash Equivalents - Beginning of year	18,135	33,087	51,222	33,972
Cash and Cash Equivalents - End of year	<u>\$ 12,659</u>	<u>\$ 2,367</u>	<u>\$ 15,026</u>	<u>\$ 61,391</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ (94,820)	\$ 171,593	\$ 76,773	\$ 46,741
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	80,935	534,803	615,738	80,913
Changes in assets and liabilities:				
Receivables/Due from other funds	(9,459)	(258,569)	(268,028)	-
Other assets	-	-	-	658
Accounts payable	8,542	(19,906)	(11,364)	(7,854)
Accrued and other liabilities	554	14,751	15,305	(1,252)
Net cash provided by (used in) operating activities	<u>\$ (14,248)</u>	<u>\$ 442,672</u>	<u>\$ 428,424</u>	<u>\$ 119,206</u>

There were no noncash transactions during the year ended June 30, 2005.

City of Three Rivers, Michigan

Fiduciary Funds Statement of Assets and Liabilities June 30, 2005

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 63,328
Taxes receivable	<u>52,845</u>
Total assets	<u>\$ 116,173</u>
Liabilities	
Due to other governmental units	\$ 52,845
Other payables	<u>63,328</u>
Total liabilities	<u>\$ 116,173</u>

City of Three Rivers, Michigan

Component Units Statement of Net Assets June 30, 2005

	Industrial Development Authority	Downtown Development Authority	Brownfield Redevelopment Authority	Library Operations	Totals
Assets					
Cash and cash equivalents	\$ 1,428	\$ 30,448	\$ 9,183	37,259	\$ 78,318
Investments	146,368	23,245	-	259,684	429,297
Accounts receivable	1,672	10,375	-	7,497	19,544
Capital assets	452,785	200,138	-	95,992	748,915
Total assets	602,253	264,206	9,183	400,432	1,276,074
Liabilities					
Accounts payable	-	1,895	-	1,601	3,496
Bonds payable	96,519	-	-	-	96,519
Accrued and other liabilities	161	657	-	8,061	8,879
Total liabilities	96,680	2,552	-	9,662	108,894
Net Assets					
Investment in capital assets -					
Net of related debt	356,266	200,138	-	95,992	652,396
Unrestricted	149,307	61,516	9,183	294,778	514,784
Total net assets	<u>\$ 505,573</u>	<u>\$ 261,654</u>	<u>\$ 9,183</u>	<u>\$ 390,770</u>	<u>\$ 1,167,180</u>

City of Three Rivers, Michigan

		Program Revenues	
	Expenses	Charges for Services	Operating Grants/Contributions
Governmental activities:			
Industrial Development Authority - Public services	\$ 17,275	\$ -	\$ -
Downtown Development Authority - Public services	85,416	-	-
Brownfield Redevelopment Authority - Public services	6,416	-	6,416
Library operations - Public services	572,423	11,065	80,340
Total governmental activities	<u>\$ 681,530</u>	<u>\$ 11,065</u>	<u>\$ 86,756</u>
General revenue:			
Property taxes			
State-shared revenues			
Miscellaneous			
General revenues - Interest			
Total general revenue			
Change in Net Assets			
Net Assets - Beginning of year (as restated) (Note 10)			
Net Assets - End of year			

**Component Units
Statement of Activities
Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets				
Industrial Development Authority	Downtown Development Authority	Brownfield Redevelopment Authority	Library Operations	Total
\$ (17,275)	\$ -	\$ -	\$ -	\$ (17,275)
-	(85,416)	-	-	(85,416)
-	-	-	-	-
-	-	-	(481,018)	(481,018)
(17,275)	(85,416)	-	(481,018)	(583,709)
27,744	66,251	3,961	295,870	393,826
-	3,600	-	-	3,600
-	34,468	-	63,216	97,684
11,804	5,227	-	6,246	23,277
39,548	109,546	3,961	365,332	518,387
22,273	24,130	3,961	(115,686)	(65,322)
483,300	237,524	5,222	506,456	1,232,502
\$ 505,573	\$ 261,654	\$ 9,183	\$ 390,770	\$ 1,167,180

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Three Rivers (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Three Rivers.

Reporting Entity

The City of Three Rivers, Michigan is a municipal corporation governed by an elected mayor and six-member City Commission. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Three Rivers, Michigan (the primary government) and its component units. The discretely presented component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Discretely Presented Component Units - Financial data of the following component units are included in the component units columns in the basic financial statements. They are reported in a separate column to emphasize that they are legally separate from the City. A voting majority of the governing bodies of each of these component units is appointed by the City Commission.

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's budget is subject to approval by the City Commission.
- b. The Industrial Development Authority was created to develop and promote industrial districts. The governing board consists of seven members appointed by the City Commission, two members appointed by Three Rivers Community Schools, and one each appointed by Glen Oaks Community College and St. Joseph County. The Authority's budget is subject to approval by the City Commission.
- c. The Library was created to provide the public with resources for reading, viewing, and audio entertaining and enlightenment. Significant corporate powers have been bestowed upon the Library. The Library's budget is subject to approval by the City Commission.
- d. The Brownfield Redevelopment Authority was created to encourage the redevelopment of contaminated property within the City by providing economic incentives through tax increment financing for certain eligible activities and Brownfield redevelopment single business tax credits. The Authority's budget is subject to approval by the City Commission.

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability, and receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund - The Major Street Fund accounts for the construction, maintenance, and repairs of all major streets. Revenue received include state-shared gas and weight taxes, local contributions and bonding. It is used to control the expenditures of motor fuel taxes, which are earmarked by law and the State Constitution for street and highway purposes, and is required by Act 51 of the Public Acts of 1951, as amended.

Municipal Street Fund - The Municipal Street Fund accounts for local road improvement projects not provided for under Act 51 of the Public Acts of 1951, as amended. Revenues received include road improvement millage passed by St. Joseph County and City street and sidewalk millage passed by City electorate.

Airport Expansion Fund - The Airport Expansion Fund was established to account for the expansion of the City's airport. The fund provides for payment of debt service on bonds issued to finance infrastructure improvements and the purchase of additional property associated with this expansion.

East Parking Lot Fund - The East Parking Lot Fund accounts for the development of capital facilities including the downtown parking lot project east of the historical downtown.

Note 1 - Summary of Significant Accounting Policies (Continued)

Special Assessments Fund - The Special Assessments Fund was established to account for various capital improvement projects throughout the City funded by special assessments.

The City reports the following major proprietary funds:

Water/Wastewater Fund - The Water/Wastewater Fund accounts for the operation and maintenance of the water and wastewater systems, capital additions and improvements, and retirement of revenue bonds. Financing is provided by user charges, property taxes, and contributions from other municipalities and customers. This fund also accounts for collections of the City's water and sewer billing surcharge that is earmarked for assistance in funding water and sewer line repairs.

Ambulance Fund - The Ambulance Fund accounts for operations of the City's ambulance service. Money for the operation of this fund is provided by user charges.

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund accounts for major vehicle and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

Agency Funds - The Agency Funds account for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water/wastewater function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Note 1 - Summary of Significant Accounting Policies (Continued)

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water/Wastewater Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 and December 1 based on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2005 tax is levied and collectible on July 1, 2004, and is recognized as revenue in the year ended June 30, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the City totaled \$152.6 million (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which taxes levied consisted of 11.4253 mills for operating purposes, 1.2000 mills for ambulance services, .4000 for solid waste services, and 3.6759 mills for the improvement of City streets and sidewalks. This resulted in almost \$2.2 million for general operating, \$211,000 for ambulance services, and \$824,000 for City streets and improvements. These amounts are recognized in the respective General Fund, Special Revenue Fund, and Enterprise Fund financial statements as tax revenue.

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include amounts in demand deposits, as well as highly liquid investments with an original maturity of three months or less. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are recorded at fair value, based on quoted market prices.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible accounts.

Inventories and Prepaid Items - Inventories in the proprietary funds are valued at cost, on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	20 to 40 years
Roads and sidewalks	15 to 20 years
Utility systems	40 to 75 years
Buildings and improvements	40 to 50 years
Machinery and equipment	5 to 20 years
Vehicles	3 to 5 years
Outdoor items	5 to 20 years
Office furnishings	5 to 7 years
Other tools and equipment	3 to 7 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the Commission includes all investments allowed by Public Act 196 of 1997. The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$1,457,778 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2005

Note 2 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Maturity Date
Federal Home Loan Mortgage Association Bond	\$ 298,221	October 27, 2010
Federal Home Loan Bank Bond	396,376	June 26, 2012
Federal Home Loan Bank Bond	248,828	July 17, 2013
Federal Home Loan Bank Bond	782,248	July 16, 2018
Federal Home Loan Bank Bond	890,442	October 30, 2009
Federal Home Loan Bank Bond	197,626	March 8, 2012
Federal Home Loan Bank Bond	298,593	April 28, 2014
Federal National Mortgage Association	247,658	June 13, 2018
Government National Mortgage Association Pool	10,992	March 20, 2020

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2004 (as Restated) (Note 10)	Additions	Disposals and Adjustments	Balance June 30, 2005
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 2,839,613	\$ 2,691	\$ -	\$ 2,842,304
Construction in process	-	1,123,571	-	1,123,571
Net capital assets not being depreciated	2,839,613	1,126,262	-	3,965,875
Capital assets being depreciated:				
Land improvements	344,615	873,976	-	1,218,591
Buildings and improvements	2,117,747	58,896	-	2,176,643
Vehicles	1,699,487	45,195	-	1,744,682
Office furnishings	552,603	15,599	-	568,202
Outdoor items	1,540,695	3,031,155	-	4,571,850
Other tools and equipment	1,407,105	69,827	-	1,476,932
Subtotal	7,662,252	4,094,648	-	11,756,900
Accumulated depreciation:				
Land improvements				
Buildings and improvements	1,288,883	51,985	-	1,340,868
Vehicles	1,075,588	70,402	-	1,145,990
Office furnishings	308,751	130,757	-	439,508
Outdoor items	750,244	66,853	-	817,097
Other tools and equipment	940,115	182,093	-	1,122,208
Subtotal	4,363,581	502,090	-	4,865,671
Net capital assets being depreciated	3,298,671	3,592,558	-	6,891,229
Net capital assets	\$ 6,138,284	\$ 4,718,820	\$ -	\$ 10,857,104

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Capital Assets (Continued)

Business-type Activities	Balance July 2, 2004 (as Amended)	Additions	Disposals and Adjustments	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 254,572	\$ -	\$ -	\$ 254,572
Construction in process	-	446,352	-	446,352
Net capital assets not being depreciated	254,572	446,352	-	700,924
Capital assets being depreciated:				
Water and sewer distribution systems	26,827,524	701,504	-	27,529,028
Buildings and improvements	5,280,173	968,832	-	6,249,005
Vehicles and equipment	3,552,484	140,885	-	3,693,369
Total cost	35,660,181	1,811,221	-	37,471,402
Accumulated depreciation:				
Water and sewer distribution systems	18,564,499	226,893	-	18,791,392
Buildings and improvements	1,904,136	108,770	-	2,012,906
Vehicles and equipment	1,271,801	280,075	-	1,551,876
Total accumulated depreciation	21,740,436	615,738	-	22,356,174
Net capital assets being depreciated	13,919,745	1,195,483	-	15,115,228
Net capital assets	\$ 14,174,317	\$ 1,641,835	\$ -	\$ 15,816,152

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Capital Assets (Continued)

Capital asset activity for the City of Three Rivers' component units for the year ended June 30, 2005 was as follows:

	July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Capital assets not being depreciated -				
Land	\$ 652,786	\$ -	\$ -	\$ 652,786
Capital assets being depreciated:				
Leasehold improvements	236,630	-	-	236,630
Furniture and fixtures	95,137	30,005	-	125,142
Books	632,899	33,775	-	666,674
Shelves	60,130	698	-	60,828
Computers	90,775	24,486	-	115,261
Total cost	1,115,571	88,964	-	1,204,535
Accumulated depreciation:				
Leasehold improvements	195,338	41,291	-	236,629
Furniture and fixtures	68,411	23,273	-	91,684
Books	490,491	133,660	-	624,151
Shelves	48,104	12,166	-	60,270
Computers	72,620	23,052	-	95,672
Total accumulated depreciation	874,964	233,442	-	1,108,406
Net capital assets being depreciated	240,607	(144,478)	-	96,129
Net capital assets	\$ 893,393	\$ (144,478)	\$ -	\$ 748,915

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 81,938
Public safety	210,008
Public works	196,686
Community and economic development	<u>13,458</u>

Total governmental activities	<u><u>\$ 502,090</u></u>
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Business-type activities:

Water	\$ 44,350
Sewer	490,453
Ambulance	<u>80,935</u>

Total business-type activities	<u><u>\$ 615,738</u></u>
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Construction Commitments - The City has active construction projects at year end. The City's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Street reconstruction	\$ 939,400	\$ 112,837
Economic development	<u>1,846,972</u>	<u>228,991</u>
Total	<u><u>\$ 2,786,372</u></u>	<u><u>\$ 341,828</u></u>

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. In addition, governmental funds and proprietary funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 548,070	\$ -
Capital grants	318,782	-
Land contract receivable	78,000	-
Total	<u>\$ 944,852</u>	<u>\$ -</u>

Note 5 - Interfund Due To/From, Advances, Transfers, and Contributions

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
Major Street Fund	Local Street Fund	\$ 75,000
General Fund	CDBG Grant Fund	8,699
General Fund	Cemetery Perpetual Care Fund	6,424
Total		<u>\$ 90,123</u>

The transfer from the Major Street Fund to the Local Street Fund was to cover the cost of maintenance on local streets during the year. The transfer to the Cemetery Fund is in accordance with the City Ordinance to transfer 1/3 of all cemetery lot sales. The transfer to the CDBG Grant from the General Fund to cover administration costs related to the ADR homes.

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Interfund Due To/From, Advances, Transfers, and Contributions (Continued)

Interfund capital contributions reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
Municipal Street Fund	Water/Wastewater Fund	\$ 665,798
Special Assessments Fund	Water/Wastewater Fund	35,409
Airport Expansion Fund	Water/Wastewater Fund	954,934
Total		<u>\$ 1,656,141</u>

Contributions to the Water/Wastewater Fund is to transfer the water and sewer portion of capital projects accounted for in the Municipal Street, Special Assessment, and Airport Funds during construction.

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		

Water/Wastewater Fund	Airport Expansion Fund	\$ 235,666
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Advances to/from Other Funds

Water/Wastewater Fund	East Parking Lot Fund	\$ 240,000
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The Water/Wastewater Fund loaned funds to the Airport Expansion to assist with operating cash needs. The Water/Wastewater Fund advance to the East Parking Lot Fund is a contribution to a capital project.

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
MEDC forgivable loan	4.00%	2012	\$ 535,000	\$ -	\$ -	\$ 535,000	\$ -
Land contract - Land purchase	5.00%	2008	207,000	-	(20,000)	187,000	-
General obligation bonds - Economic development	2.00%-4.45%	2024	1,970,000	2,310,000	(240,770)	4,039,230	225,770
General obligation bonds - Economic development	4.25%-5.00%	2023	630,000	-	(24,230)	605,770	24,230
Installment purchases - Equipment	5.10%-5.95%	2007	112,695	-	(57,242)	55,453	27,036
Accumulated employee benefits	-		136,171	-	(20,654)	115,517	-
Total governmental activities			<u>\$ 3,590,866</u>	<u>\$ 2,310,000</u>	<u>\$ (362,896)</u>	<u>\$ 5,537,970</u>	<u>\$ 277,036</u>
Business-type Activities							
Revenue bonds - Water/Wastewater	5.00%	2005	\$ 65,000	\$ -	\$ (65,000)	\$ -	\$ -
General obligation bonds - Water/wastewater	4.25%-5.00%	2021	6,500,000	-	(265,000)	6,235,000	275,000
Total business-type activities			<u>\$ 6,565,000</u>	<u>\$ -</u>	<u>\$ (330,000)</u>	<u>\$ 6,235,000</u>	<u>\$ 275,000</u>
Component Unit - Mortgage	6.00%	2013	<u>\$ 106,451</u>	<u>\$ -</u>	<u>\$ (9,932)</u>	<u>\$ 96,519</u>	<u>\$ 10,537</u>

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Long-term Debt (Continued)

Annual debt service requirements (excluding accumulated employee benefits) to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 277,036	\$ 174,445	\$ 451,481	\$ 275,000	\$ 298,888	\$ 573,888
2007	283,417	167,191	185,908	285,000	285,822	570,822
2008	447,001	159,041	175,511	300,000	272,260	572,260
2009	265,001	151,635	267,620	310,000	258,760	568,760
2010	387,671	212,079	261,288	325,000	244,810	569,810
2011-2015	2,076,809	531,898	1,082,310	1,845,000	992,365	2,837,365
2016-2020	1,170,305	220,472	705,823	2,345,000	500,500	2,845,500
2021-2024	515,213	46,821	704,395	550,000	27,500	577,500
Total	<u>\$ 5,422,453</u>	<u>\$ 1,663,582</u>	<u>\$ 3,834,336</u>	<u>\$ 6,235,000</u>	<u>\$ 2,880,905</u>	<u>\$ 9,115,905</u>

	Component Units		
	Principal	Interest	Total
2006	\$ 10,537	\$ 5,635	\$ 16,172
2007	11,178	4,995	16,173
2008	11,848	4,325	16,173
2009	12,581	3,592	16,173
2010-2014	50,375	6,228	56,603
Total	<u>\$ 96,519</u>	<u>\$ 24,775</u>	<u>\$ 121,294</u>

Note 7 - Reserved and Designated Fund Equity

Fund balance has been reserved and designated for the following purposes:

	Reserved	Designated
General Fund:		
Airport hangar reserve	\$ 23,453	\$ -
Subsequent year's budgeted expenditures in excess of budgeted revenue	-	124,845
Police training	-	3,859
Municipal building maintenance	-	2,447
Vacation and sick leave	-	34,960
Total	<u>\$ 23,453</u>	<u>\$ 166,111</u>

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for underground storage tanks, airport liability, and medical benefit claims. The City participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, property loss, torts, and errors and omissions. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Defined Benefit Pension Plan

Plan Description

The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees of the City. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of up to 7.4 percent, depending on the bargaining unit.

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2005

Note 9 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For the year ended June 30, 2005, the City's annual pension cost of \$229,587 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) no postretirement cost-of-living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of market deviations from the 8 percent assumed rate of return over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2003	2004	2005
Annual pension costs (APC)	\$ 201,984	\$ 194,274	\$ 229,587
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Date as of December 31		
	2001	2002	2003
Actuarial value of assets	\$ 7,250,897	\$ 7,541,306	\$ 8,183,277
Actuarial accrued liability (AAL)			
(entry age)	\$ 7,942,526	\$ 8,377,590	\$ 9,364,988
Unfunded AAL (UAAL)	\$ 691,629	\$ 836,284	\$ 1,181,711
Funded ratio	91%	90%	87%
Valuation payroll	\$ 2,593,416	\$ 2,673,660	\$ 2,824,304

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2005

Note 10 - Prior Period Adjustment

Following is a reconciliation of the July 1, 2004 governmental activities/business-type activities and component units net assets as previously reported to the restated net asset balance for the same period to account for prior period adjustments. Debt originally recorded in the Downtown Development Authority should have been recorded as debt of the primary government. In addition, capital costs incurred in previous years should have been recorded as capital assets on the statement of net assets.

	Governmental Activities	Business-type Activities	Component Units
Net assets as previously reported	\$ 7,092,295	\$ 10,887,017	\$ 602,502
Prior period restatement:			
Long-term debt	(630,000)	-	630,000
Capital assets - Net	344,615	197,504	-
Restated as net assets	<u>\$ 6,806,910</u>	<u>\$ 11,084,521</u>	<u>\$ 1,232,502</u>

Note 11 - Bond Issuance

Subsequent to year end, the City issued Special Assessment bonds for \$585,000 to provide resources for the Meadowbrook Infrastructure project.

Required Supplemental Information

City of Three Rivers

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 2,235,498	2,188,396	\$ 2,180,935	\$ (7,461)
Licenses and permits	59,700	99,200	96,743	(2,457)
Intergovernmental revenue:				
State grants	917,839	958,955	956,288	(2,667)
Miscellaneous	167,780	268,800	259,513	(9,287)
Federal grants	48,500	97,452	97,452	-
Charges for services	340,167	365,167	330,779	(34,388)
Investment income	60,000	25,000	26,553	1,553
Total revenue	3,829,484	4,002,970	3,948,263	(54,707)
Expenditures				
General government:				
City commission	22,565	22,565	21,017	1,548
City manager	157,412	157,412	144,212	13,200
Legal and professional	112,724	122,724	118,732	3,992
City assessor	98,172	98,172	93,788	4,384
City Clerk	162,313	162,313	145,364	16,949
Boards, committees, and commissions	3,600	5,850	2,889	2,961
Finance department	232,778	235,820	227,581	8,239
Building and grounds	148,748	221,248	214,609	6,639
Administrative services	102,373	92,373	88,056	4,317
Cemetery	119,639	119,839	110,616	9,223
Total general government	1,160,324	1,238,316	1,166,864	71,452
Public safety:				
Police	1,383,300	1,403,607	1,400,039	3,568
Fire	366,126	431,626	411,409	20,217
Inspections	68,575	71,575	71,495	80
Hazardous structures	17,200	22,200	19,842	2,358
Planning	2,250	2,250	-	2,250
Total public safety	1,837,451	1,931,258	1,902,785	28,473

City of Three Rivers

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures Continued)				
Public works:				
General maintenance	\$ 122,390	\$ 159,390	\$ 166,455	\$ (7,065)
Street lightening	79,845	79,845	74,549	5,296
Solid waste management	73,318	69,987	69,987	-
Airport	172,980	182,239	164,242	17,997
Total public works	448,533	491,461	475,233	16,228
Culture and recreation - Parks and recreation	337,486	231,986	227,054	4,932
Other functions:				
Transfers out	-	37,025	37,025	-
Insurance and bonds	80,000	72,000	71,582	418
Special projects	121,351	207,606	112,694	94,912
Total other functions	201,351	316,631	221,301	95,330
Total expenditures	3,985,145	4,209,652	3,993,237	216,415
Excess of Expenditures Over Revenue	(155,661)	(206,682)	(44,974)	161,708
Fund Balance - Beginning of year	754,850	754,850	754,850	-
Fund Balance - End of year	<u>\$ 599,189</u>	<u>\$ 548,168</u>	<u>\$ 709,876</u>	<u>\$ 161,708</u>

City of Three Rivers

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2005

Special Revenue Fund - Major Street			
	Original Budget	Amended Budget	Variance with Amended Budget
Revenue			
Intergovernmental revenue:			
State trunkline maintenance	\$ 46,000	\$ 46,000	\$ 54,567
Gas and weight tax distributions	347,100	347,100	356,891
State grants and other revenue	-	-	12,307
Investment income	3,000	3,000	16,902
Other	-	-	2,074
Total revenue	396,100	396,100	442,741
Expenditures			
Major street maintenance:			
Drains - Storm sewers	40,946	40,496	13,908
Routing maintenance	34,690	54,690	29,486
Street sweeping	45,330	52,830	45,465
Bridge maintenance	12,265	12,265	10,882
Traffic service	26,392	28,892	27,062
Ice and snow control	22,180	22,180	20,415
Traffic signals	7,000	7,000	5,811
Total major street maintenance	188,803	218,353	153,029
Trunkline maintenance:			
Surface maintenance	5,688	9,288	5,357
Sweeping and flushing	27,263	27,263	13,597
Shoulder maintenance	2,617	2,617	1,115
Trees and shrubs	18,603	18,603	12,006
Drainage and backslopes	6,668	6,668	4,527
Traffic signs	29,702	26,102	11,373
Pavement marking	7,754	7,754	2,341
Winter maintenance	34,002	34,002	32,337
Total trunkline maintenance	132,297	132,297	82,653
Transfers	75,000	75,000	75,000
Total expenditures	396,100	425,650	310,682
Excess of Revenues Over (Under) Expenditures	-	(29,550)	132,059
Fund Balances - Beginning of year	372,265	372,265	372,265
Fund Balances - End of year	<u>\$ 372,265</u>	<u>\$ 342,715</u>	<u>\$ 504,324</u>
			<u>\$ 161,609</u>

City of Three Rivers

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2005

	Special Revenue - Municipal Street			Variance with
	Original Budget	Amended Budget	Actual	Amended Budget
Revenue				
Property taxes	\$ 850,872	\$ 832,445	\$ 824,556	\$ (7,889)
Investment income	7,500	37,500	97,274	59,774
Bond proceeds	-	2,310,000	2,310,000	-
Other	-	-	8,034	8,034
Total revenue	858,372	3,179,945	3,239,864	59,919
Expenditures - Routine maintenance	<u>4,538,781</u>	<u>4,837,433</u>	<u>4,008,004</u>	<u>829,429</u>
Excess of Expenditures Over Revenue	(3,680,409)	(1,657,488)	(768,140)	889,348
Other Financing Uses - Contributions to other funds	<u>-</u>	<u>-</u>	<u>(665,798)</u>	<u>(665,798)</u>
Excess of Expenditures Over Revenues	(3,680,409)	(1,657,488)	(1,433,938)	223,550
Fund Balance - Beginning of year	<u>1,657,488</u>	<u>1,657,488</u>	<u>1,657,488</u>	<u>-</u>
Fund Balance (Deficit) - End of year	<u>\$ (2,022,921)</u>	<u>\$ -</u>	<u>\$ 223,550</u>	<u>\$ 223,550</u>

City of Three Rivers

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2005

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
General Employees' Retirement System						
12/31/99	\$ 6,045,872	\$ 6,383,166	\$ 337,294	95	\$ 394,864	15
12/31/00	6,672,787	7,462,708	789,921	89	414,727	31
12/31/01	7,250,897	7,942,526	691,629	91	345,834	27
12/31/02	7,541,306	8,377,590	836,284	90	343,654	31
12/31/03	8,183,277	9,364,988	1,181,711	87	395,483	42
12/31/04	8,685,681	10,626,073	1,940,392	82	463,144	64

Note - Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds, except that debt proceeds and transfers in/out have been included in the “revenue” and “expenditures” categories, rather than as an “other financing sources/use”. All annual appropriations lapse at fiscal year end.

The annual budget is prepared by the City management and adopted by the City Commission; subsequent amendments are approved by the City Commission. Department heads may make transfers of appropriations within a department other than personnel-related. All funds of the City are included in the budget. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end may be reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

The City Commission has adopted the budget on an activity basis (for example, general government, public safety, etc.). Expenditures at this level significantly in excess of amounts budgeted for activities are a violation of Michigan law. Department heads may make transfers within a department other than personnel-related. Although appropriations may not be transferred to or from personnel-related line items or between departments without City Commission approval, State of Michigan law does not require that expenditures stay within these budgeted amounts, as long as expenditures remain within the approved activity appropriations.

City of Three Rivers

Note to Required Supplemental Information June 30, 2005

Note - Budgetary Information (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Three Rivers, Michigan incurred the following expenditures that were significantly in excess of the amounts budgeted.

	<u>Budget</u>	<u>Actual</u>
Special Revenue Funds - Municipal Street - Contributions to other funds	\$ -	\$ 665,798
Capital Project Funds:		
Airport Expansion - Contribution to other funds	-	954,934
Special Assessment - Contribution to other funds	-	35,409

The contributions were the transfer of project expenditures to the Water/Wastewater Funds during the year.

Budget Fund Deficits - The City has originally budgeted for a deficit in the Special Revenue Fund - Municipal Street, which is considered an illegal budget. The amended budget included a budget amendment to balance the budget.

Other Supplemental Information

Nonmajor Governmental Funds

Special Revenue Funds - The Local Street Fund accounts for the construction, maintenance, and repairs of all local streets. Financing is provided by state-shared gas and weight taxes, local contributions, bonding, etc. It is used to control the expenditures of motor fuel taxes, which are earmarked by law and the State Constitution for street and highway purposes, and is required by Act 51 of the Public Acts of 1951, as amended.

The Neighborhood and Community Development Fund accounts for the Community Development Block Grant federal financial assistance programs.

Permanent Fund - The Riverside Cemetery Perpetual Care Fund accounts for money held in trust for the perpetual care of the City cemetery. Revenues consist of investment earnings and charges for services.

City of Three Rivers

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2005

	Special Revenue Funds		Permanent Fund	
	Local Streets	Neighborhood and Community Development	Riverside Perpetual Care	Total Nonmajor Governmental Funds
Assets				
Cash and investments	\$ 2,562	\$ 4,446	\$ 3,151	\$ 10,159
Investments	96,078	-	216,646	312,724
Receivables:				
Accrued interest	2,623	-	1,896	4,519
Other	36,071	-	-	36,071
Total assets	<u>\$ 137,334</u>	<u>\$ 4,446</u>	<u>\$ 221,693</u>	<u>\$ 363,473</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 739	\$ -	\$ 44	\$ 783
Accrued and other liabilities	368	4,097	321	4,786
Deferred revenue	-	349	-	349
Total liabilities	1,107	4,446	365	5,918
Fund Balances - Unreserved	<u>136,227</u>	<u>-</u>	<u>221,328</u>	<u>357,555</u>
Total liabilities and fund balances	<u>\$ 137,334</u>	<u>\$ 4,446</u>	<u>\$ 221,693</u>	<u>\$ 363,473</u>

City of Three Rivers

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2005

	Special Revenue Funds		Permanent Fund	Total Nonmajor Governmental Funds
	Local Streets	Neighborhood and Community Development	Riverside Perpetual Care	
Revenue				
Intergovernmental revenue:				
State trunkline maintenance				
State grants and other revenue	\$ 12,307	\$ -	\$ -	\$ 12,307
Gas and weight tax distributions	146,895	-	-	146,895
Investment income	4,021	-	15,627	19,648
Other	-	-	4,000	4,000
Total revenue	163,223	-	19,627	182,850
Expenditures				
Public services	191,953	-	14,163	206,116
Community/Economic development	-	8,699	-	8,699
Total expenditures	191,953	8,699	14,163	214,815
Excess of Revenue Over (Under) Expenditures	(28,730)	(8,699)	5,464	(31,965)
Other Financing Sources - Transfers	75,000	8,699	6,424	90,123
Net Change in Fund Balances	46,270	-	11,888	58,158
Fund Balances - Beginning of year	89,957	-	209,440	299,397
Fund Balances - End of year	\$ 136,227	\$ -	\$ 221,328	\$ 357,555

City of Three Rivers

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds Year Ended June 30, 2005

	Special Revenue Fund - Local Street			Variance with Amended Budget
	Original Budget	Amended Budget	Actual	
Revenue				
Intergovernmental revenue:				
Gas and weight tax distributions	\$ 142,100	\$ 142,100	\$ 146,895	\$ 4,795
State grants and other revenue	-	-	12,307	12,307
Investment income	800	800	4,021	3,221
Transfers	75,000	75,000	75,000	-
Total revenue	217,900	217,900	238,223	20,323
Expenditures				
Drains - Storm sewers	26,352	46,352	26,774	19,578
Routine maintenance	56,221	86,221	31,323	54,898
Street sweeping	56,685	76,685	63,642	13,043
Traffic service	33,429	38,429	33,387	5,042
Ice and snow control	45,213	45,213	36,827	8,386
Total expenditures	217,900	292,900	191,953	100,947
Excess of Over (Under) Expenditures	-	(75,000)	46,270	121,270
Fund Balances - Beginning of year	89,957	89,957	89,957	-
Fund Balances - End of year	<u>\$ 89,957</u>	<u>\$ 14,957</u>	<u>\$ 136,227</u>	<u>\$ 121,270</u>

City of Three Rivers

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds (Continued) Year Ended June 30, 2005

	<u>Special Revenue Fund - Neighborhood/Community Development</u>			
	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Revenue - Transfers	\$ -	\$ 10,000	\$ 8,699	\$ (1,301)
Expenditures - Community development	<u>-</u>	<u>10,000</u>	<u>8,699</u>	<u>1,301</u>
Excess of Revenues Over Expenditures	-	-	-	-
Fund Balances - Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances - End of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Fiduciary Funds

General Trust and Agency Fund - The General Trust and Agency Fund accounts for the payroll paid to the employees, after reimbursement from the benefited funds.

Tax Collections Fund - The Tax Collections Fund accounts for tax collections that are held by the City in the capacity of trustee. The collections are then transferred to the City's General Fund and to other governmental units on a timely distribution basis.

City of Three Rivers

Fiduciary Funds Combining Statement of Changes in Assets and Liabilities All Agency Funds Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
<u>General Trust and Agency</u>				
Assets - Cash and cash equivalents	<u>\$ 184</u>	<u>\$ 4,111,604</u>	<u>\$ (4,048,460)</u>	<u>\$ 63,328</u>
Liabilities - Other payables	<u>\$ 184</u>	<u>\$ 4,111,604</u>	<u>\$ (4,048,460)</u>	<u>\$ 63,328</u>
<u>Tax Collections</u>				
Assets				
Cash and cash equivalents	\$ -	\$ 10,100,466	\$ (10,100,466)	\$ -
Taxes receivable	<u>50,507</u>	<u>52,845</u>	<u>(50,507)</u>	<u>52,845</u>
Total assets	<u>\$ 50,507</u>	<u>\$ 10,153,311</u>	<u>\$ (10,150,973)</u>	<u>\$ 52,845</u>
Liabilities - Due to other governmental units	<u>\$ 50,507</u>	<u>\$ 10,153,311</u>	<u>\$ (10,150,973)</u>	<u>\$ 52,845</u>
<u>Totals - All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 184	\$ 14,212,070	\$ (14,148,926)	\$ 63,328
Taxes receivable	<u>50,507</u>	<u>52,845</u>	<u>(50,507)</u>	<u>52,845</u>
Total assets	<u>\$ 50,691</u>	<u>\$ 14,264,915</u>	<u>\$ (14,199,433)</u>	<u>\$ 116,173</u>
Liabilities				
Due to other governmental units	\$ 50,507	\$ 10,153,311	\$ (10,150,973)	\$ 52,845
Other payables	<u>184</u>	<u>4,111,604</u>	<u>(4,048,460)</u>	<u>63,328</u>
Total liabilities	<u>\$ 50,691</u>	<u>\$ 14,264,915</u>	<u>\$ (14,199,433)</u>	<u>\$ 116,173</u>

Statistical Section

City of Three Rivers, Michigan

General Governmental Expenditures by Function General, Special Revenue, Capital Projects, and Debt Service Funds Last Ten Fiscal Years

Fiscal Year Ended June 30	General Government	Public Safety	Public Services	Health and Welfare	Community Development and Enrichment	Debt Service	Other Services	Total
1996	\$ 693,028	\$ 1,296,441	\$ 609,165	\$ 6,548	\$ 99,425	\$ 189,285	\$ 194,016	\$ 3,087,908
1997	764,908	1,385,611	1,011,544	6,308	147,696	157,755	301,921	3,775,743
1998	706,748	1,481,985	848,870	6,776	153,140	153,985	275,986	3,627,490
1999	738,559	1,509,998	877,938	5,458	50,390	155,460	785,700	4,123,503
2000	902,474	1,560,822	1,259,957	56,678	228,165	151,600	610,935	4,770,631
2001	889,891	1,657,732	1,041,511	53,606	77,220	50,584	390,924	4,161,468
2002	994,003	1,785,950	1,367,003	94,949	91,729	21,510	475,302	4,830,446
2003	1,044,993	1,970,652	1,388,967	10,835	351,451	-	518,101	5,284,999
2004	984,642	1,871,219	1,954,469	-	2,563,140	-	596,694	8,060,164
2005	1,166,864	1,902,785	1,902,785	-	1,327,475	-	389,428	6,689,337

Note: In 1994, the City implemented GASB No. 14. As a result, the component unit operations of the Downtown Development Authority, Industrial Development Authority, and the Library have been excluded from this presentation and the debt service activity for issues relating to the Water/Wastewater Funds have been reclassified to the appropriate proprietary funds. In 2000, the City eliminated its expendable trust fund and reclassified the Accumulated Vacation and Sick Leave Fund as a special revenue type fund. The expenditure activity for this fund is presented under the Health and Welfare caption.

City of Three Rivers, Michigan

General Governmental Revenues by Source General, Special Revenue, Capital Projects, and Debt Service Funds Last Ten Fiscal Years

Fiscal Year Ended June 30	Property Taxes	Licenses and Permits	Federal Sources	State Sources	Charges for Services	Fines and Forfeitures	Other Revenues	Total
1996	\$ 1,529,605	\$ 33,952	\$ 127,876	\$ 1,380,098	\$ 163,053	\$ 22,200	\$ 198,159	\$ 3,454,943
1997	1,511,400	36,647	131,962	1,535,660	196,103	13,762	162,922	3,588,456
1998	1,655,128	38,245	235,995	1,522,556	183,144	16,431	320,829	3,972,328
1999	1,683,984	45,034	79,582	1,593,559	182,649	37,010	331,837	3,953,655
2000	1,776,921	37,871	204,942	1,841,273	205,504	45,237	473,081	4,584,829
2001	1,903,975	40,711	160,320	1,784,490	226,824	47,917	501,689	4,665,926
2002	2,068,959	48,847	223,644	1,680,656	232,110	43,015	300,384	4,597,615
2003	2,712,448	51,443	127,527	1,733,700	239,782	49,290	317,106	5,231,296
2004	2,998,127	55,293	488,463	1,571,597	255,778	49,650	1,100,907	6,519,815
2005	-	3,005,491	96,743	1,523,797	1,559,118	50,137	527,816	6,763,102

Note: In 1994, the City implemented GASB No. 14. As a result, the component unit operations of the Downtown Development Authority, Industrial Development Authority, and the Library have been excluded from this presentation.

City of Three Rivers, Michigan

Property Tax Levy and Collections Last Ten Fiscal Years

July 1 Tax Year	Fiscal Year Ended June 30	Total Adjusted Tax Levy (1)	Collections Before March 1 Delinquent Date	Percent of Levy Collected
1995	1996	\$ 2,075,630	\$ 1,918,953	92.45
1996	1997	2,113,422	2,081,971	98.51
1997	1998	2,150,517	2,020,912	93.97
1998	1999	2,185,715	2,035,753	93.14
1999	2000	2,433,142	2,308,275	94.87
2000	2001	2,480,260	2,377,018	95.84
2001	2002	2,549,520	2,402,765	94.24
2002	2003	2,985,992	2,855,931	95.64
2003	2004	3,294,875	3,178,694	96.47
2004	2005	3,327,484	3,186,637	95.77

- (1) Tax levies reflect adjustments for Tax Tribunal consent judgments, Board of Review decisions, real estate taxes canceled through foreclosure and state scavenger sales, and personal property taxes canceled by Circuit Court. Does not include penalty and interest on late payment of taxes.

City of Three Rivers, Michigan

Assessed and Estimated Actual Valuation of Taxable Property Last Ten Fiscal Years

<u>Tax Year</u>	<u>Fiscal Year Ended June 30</u>	<u>Real Ad Valorem and IFT SEV</u>	<u>Personal Ad Valorem and IFT SEV</u>	<u>Total Ad Valorem and IFT SEV</u>
1995	1996	\$ 75,279,398	\$ 29,273,170	\$ 104,552,568
1996	1997	76,196,134	29,268,036	105,464,170
1997	1998	82,529,659	27,392,870	109,922,529
1998	1999	97,478,474	51,674,170	149,152,644
1999	2000	139,775,465	28,111,781	167,887,246
2000	2001	150,339,398	30,229,022	180,568,420
2001	2002	125,428,513	62,748,325	188,176,838
2002	2003	137,953,201	67,293,816	205,247,017
2003	2004	145,114,443	93,883,993	238,998,436
2004	2005	141,488,400	90,243,449	231,731,849

Per capita total SEV for the fiscal year ended June 30, 2003 (1) \$ 31,623

(1) Based on the City's 2000 census of 7,328

Note: In accordance with the 1970 State of Michigan Constitution, the assessed value is 50 percent of the appraised or estimated value.

City of Three Rivers, Michigan

Property Tax Rates Direct and Overlapping Governments (Per \$1,000 of Assessed Valuation) Last Ten Fiscal Years

Direct									Overlapping									
Fiscal Year Ended June 30	(1) General Operating	Library Operating	Voted Millage (Library)	Voted Millage (EMS)	Solid Waste Management	City Streets And Sidewalks	Debt Service	Total City	County Operating	County 911 Service	County Road Maint.	Commission on Aging	Special Education	School Debt Service	Intermediate Schools	Community College	Schools	Combined Total
1996	11.6597	0.9716	0.7432	2.0000	-	-	4.4780	19.8525	4.5485	0.7167	1.0000	0.2500	0.2287	-	2.6204	2.8670	24.0000	56.0838
1997	11.6597	0.9716	0.7432	2.0000	-	-	3.5885	18.9630	4.5485	0.7500	1.0000	0.2500	0.2287	5.9300	2.6204	2.8670	24.0000	61.1576
1998	11.6597	0.9716	0.7432	0.8930	-	-	3.6530	17.9205	4.5380	0.7483	0.9977	0.2494	0.2271	5.9300	2.6022	2.8670	24.0000	60.0802
1999	11.6597	0.9716	0.7432	0.8772	-	-	3.4762	17.7279	4.4942	0.7445	0.9903	0.2500	0.2250	5.4500	2.5786	2.8409	24.0000	59.3014
2000	11.6151	0.9678	0.7403	0.9077	-	-	3.7710	18.0019	4.7095	0.7366	0.9798	0.2473	0.2370	5.4000	2.5473	2.8117	23.9973	59.6684
2001	11.5001	0.9582	0.7329	0.8978	0.5360	-	2.4520	17.0770	4.6595	0.7288	0.9694	0.2446	0.2343	5.1500	2.5184	2.7806	23.9973	58.3599
2002	11.5001	0.9582	0.7329	1.9725	0.4725	-	2.4260	18.0622	4.6150	0.6218	0.9601	0.2422	0.2318	5.0000	2.4917	2.7559	23.9973	58.9780
2003	11.5001	0.9582	0.7329	1.1000	0.4000	3.7000	0.0000	18.3912	4.5997	0.6218	0.9569	0.3333	0.2309	4.8300	2.4821	2.7495	23.9972	59.1926
2004	11.4253	0.9520	0.7280	1.0000	0.4000	3.6759	0.0000	18.1812	4.5794	0.6218	0.9526	0.3318	0.2302	4.7500	2.4752	2.7453	23.9595	58.8270
2005	11.4253	0.9520	0.7280	1.0000	0.4000	3.6759	0.0000	18.1812	4.5794	0.7162	1.0000	0.3318	0.2302	6.9000	2.4752	2.4950	23.9595	60.8685

(1) City general operating tax rate charter limit equals 12.0 mills.

City of Three Rivers, Michigan

Special Assessment Billings and Collections Last Ten Fiscal Years

Fiscal Year Ended June 30	Beginning Outstanding Assessments	Special Assessment Billings	Total Assessments	Assessments Collected and/or written off by City	Percent of Collections to Total	Ending Outstanding Assessments
1996	\$ 189,204	\$ 84,250	\$ 273,454	\$ 71,314	26	\$ 202,140
1997	202,140	60,149	262,289	60,080	23	202,209
1998	202,209	49,783	251,992	31,290	12	220,702
1999	220,702	60,565	281,267	34,509	12	246,758
2000	246,758	116,967	363,725	45,488	13	318,237
2001	318,237	61,927	380,164	124,035	33	256,129
2002	256,129	71,327	327,456	106,516	33	220,940
2003	220,940	-	220,940	220,940	-	-
2004	-	570,000	570,000	-	-	570,000
2005	570,000	-	570,000	21,930	4	548,070

Note: Delinquent special assessments are transferred to the City tax rolls in the following year. The County Delinquent Tax Revolving Fund reimburses the City 100 percent of delinquent special assessments, as well as delinquent real property taxes.

City of Three Rivers, Michigan

Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt per Capita Last Ten Fiscal Years

Fiscal Year Ended June 30	(1) Population	State Equalized Assessed Value	Net Direct Debt Outstanding	Percent of Net Direct Debt to Total State Equalized Value	Net Direct Debt Per Capita
1996	7,413	\$ 105,187,971	\$ 2,405,000	2.29	\$ 324
1997	7,413	105,464,170	2,035,000	1.93	275
1998	7,413	109,922,529	1,625,000	1.48	219
1999	7,413	126,761,317	1,205,000	0.95	163
2000	7,413	141,226,237	745,000	0.53	100
2001	7,328	180,568,420	267,957	0.15	37
2002	7,328	188,176,838	310,915	0.17	42
2003	7,328	205,247,017	197,466	0.10	27
2004	7,328	238,998,436	2,712,694	1.14	370
2005	7,328	230,943,812	4,700,453	2.04	641

(1) Bureau of the Census 1980 Population Report for 1991 through 2000
Bureau of the Census 2000 Population Report for 2001

City of Three Rivers, Michigan

Computation of Legal Debt Margin June 30, 2005

Debt limit:

2004 state equalized valuation	\$ 230,943,812
--------------------------------	----------------

Debt limit (1)	<u>0.1000</u>
----------------	---------------

(10 percent of equalized value)	23,094,381
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Debt applicable to debt limit:

Total gross direct debt	\$ 10,935,453
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Less exempt debt deductions allowed by law - Water and Sewer Revenue Bonds	<u>6,235,000</u>
---	------------------

Total amount of debt applicable to limit	<u>4,700,453</u>
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Legal debt margin	<u><u>\$ 18,393,928</u></u>
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(1) Debt limit set forth in Section 4a, Act 279 of 1909 and Act 202, P.A. 1943 as amended by Act 42, P.A. 1960.

City of Three Rivers, Michigan

Computation of Direct and Overlapping Debt June 30, 2005

Direct Debt of the City

<u>Date of Issue</u>	<u>Purpose</u>	<u>Amount Outstanding</u>
05/01/01	Sewer System Improvement Bonds (LTGO)	\$ 6,235,000
08/07/03	Capital Improvement Bonds (LTGO)	2,500,000
07/07/04	Capital Improvement Bonds (LTGO)	2,145,000
08/15/01	Installment Purchase Obligations - Fifth Third Bank	<u>55,453</u>

Gross Direct Debt

10,935,453

Less Water and Sewer Revenue Bonds

-

Net Direct Debt

10,935,453

Overlapping Debt (A)

<u>Percent</u>	<u>Jurisdiction</u>	<u>Amount Outstanding</u>	<u>City's Share</u>
34.44	Three Rivers Community Schools	\$ 48,930,000	\$ 16,626,414
10.32	Glen Oaks Community College	1,275,000	130,815
			<u>16,757,229</u>

Net direct and overlapping debt

\$ 27,692,682

(A) Overlapping debt is the portion of the debt of other units of government for which a taxpayer is liable in addition to the debt of the City.

G.O. = General Obligation

U.T.G.O. = Unlimited Tax General Obligation

L.T.G.O. = Limited Tax General Obligation

Source: Municipal Advisory Council of Michigan

City of Three Rivers, Michigan

Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Expenditures Last Ten Fiscal Years

Fiscal Year Ended June 30	Principal	Interest and Fiscal Charges	Total Debt Service	Total General Governmental Expenditures (1)	Ratio of Debt Service to General Expenditures
1996	\$ 350,000	\$ 191,430	\$ 541,430	\$ 3,087,908	17.53
1997	370,000	115,215	485,215	3,775,473	12.85
1998	410,000	96,024	506,024	3,627,490	13.95
1999	420,000	74,468	494,468	4,123,503	11.99
2000	460,000	50,448	510,448	4,770,631	10.70
2001	380,000	28,393	408,393	4,161,468	9.81
2002	365,000	9,536	374,536	4,830,446	7.75
2003	-	-	-	5,284,999	-
2004	-	69,550	69,550	5,407,028	1.29
2005	265,000	162,298	427,298	8,512,575	5.02

(1) Includes General, Special Revenue, and Debt Service Funds

City of Three Rivers, Michigan

Schedule of Revenue Bond Coverage Sewer and Water Funds Last Ten Fiscal Years

Fiscal Year Ended June 30	(1) Gross Revenues	(2) Operating Expenses	Net Revenue Available for Debt Service	Principal	Interest	Total	(3) Coverage
1996	\$ 1,658,236	\$ 1,227,325	\$ 430,911	\$ 55,000	\$ 17,850	\$ 72,850	591.50
1997	1,746,030	1,078,525	667,505	100,000	35,580	135,580	492.33
1998	1,820,711	995,501	825,210	125,000	33,043	158,043	522.14
1999	2,120,258	1,171,650	948,608	130,000	26,790	156,790	605.02
2000	1,962,160	1,446,319	515,841	110,000	29,588	139,588	369.55
2001	2,457,084	1,333,957	1,123,127	55,000	11,655	66,655	1,684.99
2002	2,295,533	1,742,246	553,287	55,000	11,930	66,930	826.67
2003	2,656,178	1,758,692	897,486	405,000	345,032	750,032	119.66
2004	2,666,432	1,869,079	797,353	315,000	322,375	637,375	125.10
2005	2,887,473	2,078,242	809,231	330,000	308,187	638,187	126.80

(1) Gross revenues include interest income.

(2) Operating expenses do not include depreciation or interest expense.

(3) Revenue bond coverage is equal to net revenue available for debt service divided by total debt service requirements.

City of Three Rivers, Michigan

General Fund Balance Compared to Actual Expenditures Last Ten Fiscal Years

Fiscal Year Ended June 30	Reserved Fund Balance	Unreserved Fund Balance	Total Fund Balance	Annual Expenditures	Total Fund Balance as a Percent of Expenditures	Unreserved Fund Balance as a Percent of Expenditures
1996	\$ 107,243	\$ 648,722	\$ 755,965	\$ 2,578,723	29	25
1997	111,748	664,159	775,907	2,967,879	26	22
1998	281,371	727,450	1,008,821	2,819,405	36	26
1999	266,412	792,649	1,059,061	3,385,907	31	23
2000	165,456	787,234	952,690	3,435,886	28	23
2001	212,446	1,046,527	1,258,973	3,287,251	38	32
2002	143,799	976,826	1,120,625	3,648,269	31	27
2003	36,170	609,208	645,378	3,875,908	17	16
2004	441,990	312,860	754,850	3,875,010	19	8
2005	189,564	520,312	709,876	3,934,310	18	13

City of Three Rivers, Michigan

Demographic Statistics Last Ten Fiscal Years

Fiscal Year Ended June 30	(a) Total Population	(b) Per Capita Income	(c) Median Age	(d) School Enrollment	(e) Unemployment
1996	7,413	\$ 21,477	30.7	2,966	7.10
1997	7,413	21,477	30.7	2,962	4.10
1998	7,413	21,477	30.7	2,930	4.30
1999	7,413	21,477	30.7	2,995	4.50
2000	7,413	21,477	30.7	3,005	4.40
2001	7,328	32,460	31.7	3,128	9.50
2002	7,328	32,460	31.7	2,994	8.70
2003	7,328	32,460	31.7	3,110	10.70
2004	7,328	32,460	31.7	3,088	7.80
2005	7,328	32,460	31.7	3,096	6.70

(a) Bureau of the Census 1990 Population Report for 1994-2000
Bureau of the Census 2000 Population Report for 2001-2003

(b) Bureau of the Census 1990 Economic Characteristics Report for 1994-2000
Bureau of the Census 2000 Economic Characteristics Report for 2001-2003

(c) Bureau of the Census 1990 Population Report for 1994-2000
Bureau of the Census 2000 Population Report for 2001-2003

(d) Three Rivers Community Schools

(e) Michigan Employment Security Commission

City of Three Rivers, Michigan

Principal Taxpayers

	Taxpayer	Ad Valorem Taxable Valuation	Industrial Facilities Taxable Valuation	Total Taxable Valuation	Percentage of Total Taxable Valuation
#1	American Axle	\$ 20,192,410	\$ 19,001,675	\$ 39,194,085	21.65
#2	Eaton Corp.	3,410,753	6,546,885	9,957,638	5.50
#3	Meijer	6,897,512	-	6,897,512	3.81
#4	Metal Technologies	1,573,314	1,882,821	3,456,135	1.91
#5	Johnson Corp.	4,778,826	-	4,778,826	2.64
#6	Armstrong Int'l.	3,814,845	-	3,814,845	2.11
#7	Weyerhaeuser	3,258,175	228,653	3,486,828	1.93
#8	Day International	2,721,689	236,786	2,958,475	1.63
#9	L & M Development	1,847,060	-	1,847,060	1.02
#10	1320 W. Broadway, LLC	804,130	-	804,130	0.44
	Total	<u>\$ 49,298,714</u>	<u>\$27,896,820</u>	<u>\$77,195,534</u>	<u>42.64</u>

City of Three Rivers, Michigan

**Federal Awards
Supplemental Information
June 30, 2005**

City of Three Rivers, Michigan

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Independent Auditor's Report

To the Mayor and City Commission
City of Three Rivers, Michigan

We have audited the basic financial statements of the City of Three Rivers, Michigan for the year ended June 30, 2005 and have issued our report thereon dated August 19, 2005. Those basic financial statements are the responsibility of the management of the City of Three Rivers, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of Three Rivers, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

August 19, 2005

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Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Mayor and City Commission
City of Three Rivers, Michigan

We have audited the financial statements of the City of Three Rivers, Michigan as of and for the year ended June 30, 2005 and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Three Rivers, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Three Rivers, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Mayor and City Commission
City of Three Rivers, Michigan

This report is intended solely for the information and use of the commission, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

August 19, 2005

Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133

To the Mayor and City Commission
City of Three Rivers, Michigan

Compliance

We have audited the compliance of the City of Three Rivers, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. The major federal program of the City of Three Rivers, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Three Rivers, Michigan's management. Our responsibility is to express an opinion on the City of Three Rivers, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Three Rivers, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Three Rivers, Michigan's compliance with those requirements.

In our opinion, the City of Three Rivers, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

To the Mayor and City Commission
City of Three Rivers, Michigan

Internal Control Over Compliance

The management of the City of Three Rivers, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Three Rivers, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the commission, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

August 19, 2005



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City of Three Rivers, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development:				
Passed through Michigan Strategic Fund - CDBG - American Axle	14.228	MSC-203003-EDIG	\$ 562,000	\$ 160,984
Passed through Michigan Economic Development Corporation - CDBG - Airport Industrial Park	14.228	MSC-202055-EDIG	1,105,350	<u>570,000</u>
Total U.S. Department of Housing and Urban Development				730,984
U.S. Department of Justice - Office of Justice Programs:				
Passed through Family Independence Agency - Juvenile Justice and Delinquency Prevention	16.548	34085-3DPI	37,500	37,500
Passed through Michigan Department of Justice - Local Law Enforcement Block Grant Program	16.592	2003-LB-BX-1924	11,807	<u>8,122</u>
Total U.S. Department of Justice				45,622
U.S. Department of Homeland Security - Passed through Michigan Homeland Security Grant Program:				
Part II Training Grant	97.004	P.A. 234	215	215
Emergency Preparedness and Response Directorate Assistance to Firefighters Grant Program	97.044	EMW-2003-FG-17298	51,615	<u>51,615</u>
Total U.S. Department of Homeland Security				51,830
U.S. Environmental Protection Agency - Brownfield Pilots Cooperative Agreements	66.811	BP-97571401-0	200,000	6,416
U.S. Department of Commerce - Grants for Public Works and Development Facilities	11.300	06-01-04733	1,080,000	<u>926,345</u>
Total federal awards				<u>\$ 1,761,197</u>

City of Three Rivers, Michigan

Note to Schedule of Expenditures of Federal Awards June 30, 2005

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Three Rivers and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

City of Three Rivers, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
11.300	U.S. Department of Commerce

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

City of Three Rivers, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

August 19, 2005

Honorable Mayor and Members
of the City Commission
City of Three Rivers

Dear Mayor and Council Members:

Once again, we would like to commend you on receiving the "Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting." It is truly a wonderful accomplishment for which you, and especially the City's staff, should be very proud.

We have recently completed our audit of the financial statements for the City of Three Rivers for the year ended June 30, 2005. As a result of our audit, we offer the following observations and comments for your consideration:

Observations and Comments

Direct Deposit Authorizations

Currently, the City does not require any authorizations from employees wishing to have their paychecks direct deposited into their respective bank accounts. Obtaining these authorizations from employees is considered a "best practice" in the industry and should be implemented by the City.

Journal Entry Approval

During our audit, we noted the Finance Director can initiate and input journal entries into the general ledger without any review or approval process. We recommend that the City Manager review a summary of journal entries initiated by the Finance Director on a monthly basis. This will strengthen the City's internal controls over the recording of journal entries.

Financial Outlook

The City ended the year June 30, 2005 with the following: the General Fund had a fund balance of \$709,876; on a full accrual basis, the total for all governmental activities unrestricted net assets was \$1,218,623.

As discussed in more detail in the following item, state shared revenue is again at risk of being reduced in the current year. At June 30, 2005, the City's fund balance accounts for approximately 17.8% of current year expenditures in the General Fund. The industry benchmark for General Fund fund balance is usually 25% of expenditures. Taking the City's current financial position into account, we encourage the City to budget conservatively as the future of state shared revenue is unknown.

State Shared Revenue

State shared revenue accounts for approximately 24.2% of the City's total General Fund revenue. The Governor's budget for the State of Michigan's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. In essence, no further reductions to revenue sharing below the current FY 04/05 funding level were being proposed.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state shared revenue payments revenue sharing and for fiscal years 2004/2005 and 2005/2006 the appropriation in the State's budget for revenue sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. There appears to be no long term solution to the State's structural deficit in its General Fund and as long as this condition exists, revenue sharing remains at risk, and a return to past funding levels is not likely in the foreseeable future.

As a result of a changes made by the State to revenue sharing last year, counties were required to move their property tax levy date for their operating millage from December to July in 2005. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out.

Transportation Matters

The State is now expecting lower than anticipated Act 51 receipts for the State's 2004/2005 fiscal year which ends September 30, 2005. The Michigan Department of Transportation reported that receipts through the six month period ended April 30, 2005 were 4% behind last year. Plante & Moran publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. If actual collections are less than amounts forecasted by the Michigan Department of Transportation, this could likely result in revenue less than budgeted amounts in the City's Major and Local Street Funds. The lower than anticipated collections could impact the City's fiscal year 2004/2005 and 2005/2006 budgets.

Tax Matters

The centerpiece of the Governor's FY 2005/2006 State of Michigan budget is significant business tax reform of the Michigan Single Business Tax. The Governor's business tax reform proposal appeared to spare local governments from any negative impact of the changes and actually contained a provision to address a loophole in property tax assessments related to commercial property (known as WPW). As of this date, there is no consensus in Lansing on the Governor's tax proposal, and alternative proposals are being discussed in the Legislature. Therefore, the impact on local government from these potential changes cannot be determined. A key component to most of the tax restructuring proposals is a significant credit on personal property taxes paid by certain businesses. Many questions have arisen from these proposals such as who determines the property that qualifies for credit, how will local governments

be reimbursed by the State for the lost tax revenue as is the stated intention, etc. Debate on these tax restructuring proposals will continue over the next several months into the fall.

The loophole involving the inconsistent treatment of the assessment of commercial property is commonly referred to as the "WPW Case" involving the City of Troy. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This method of assessing commercial property (known as the "occupancy method") has been used by assessors to give commercial property owners a break when occupancy of their property has decreased and then to restore the taxable value of the property consistent with previous levels when occupancy increases. There are two bills in the House currently (House Bills 5096 and 5097) that have received hearings and consideration which would address this matter.

Taxing Municipal Recreation Operations

During the State's fiscal year 2005/2006 budget discussions, a proposal was introduced to put certain municipal operations that are in competition with the private sector on an equal playing field by requiring them to pay certain state taxes paid by the private sector. The main target appears to be municipal golf course operations but other recreation operations (such as ice arenas) could become part of the scope. There have been hearings on the subject and it is not clear which direction this issue will take in the fall.

Telecommunications Act Expiration Date Approaches

The Michigan Telecommunications Act is scheduled to sunset at December 31, 2005. There is a threat that the rewrite of the Act could include a restriction or elimination of the regulation of telecommunication companies (including cable operators which would impact franchise fees received by local governments). There is also considerable discussion about prohibiting local governments from being in the telecommunications business which may have an impact on current or future activities of the City.

Personal Property Tax

With the adoption several years ago by the State Tax Commission of new personal property tax tables for utilities (which made drastic changes to the transmission and distribution property of utilities and resulted in a corresponding revenue loss to local governments), many communities elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables which generated a series of lawsuits on this subject. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. In certain jurisdictions, refunds have been made or are in process from local governments to the utilities.

There appears to be considerable inconsistency relative to how the utility companies are proceeding related to refunds due from local governments (both between utilities and with respect to how a particular utility is handling different local governments). Some matters are settled and resolved. Other open matters are at different stages. We have heard that a utility had made a settlement offer to certain local units at 75% of the amount owed them. In relation to this matter, during the proceedings related to change in the multiplier tables, it was discovered that certain utilities may have under reported their self constructed assets creating the potential that monies were due to local governments for under paid property taxes. Earlier during the resolution of the multiplier table issue, it appeared that the resolution of both the multiplier table issue and the issue of under reported self constructed assets by the utilities would be resolved together. It appears that the State Tax Commission has separated these matters leaving the door open for the utilities to proceed with collection efforts on judgments outstanding related to the multiplier tables.

Honorable Mayor and Members
of the City Commission
City of Three Rivers

August 19, 2005
Page 4

We encourage the City to continue to monitor these developments, as the City could be negatively impacted by the outcome.

We appreciate the courtesy and cooperation extended to us by you and members of your organization during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script that reads "Sharon L. Vargo".

Sharon Vargo, CPA
Partner

A handwritten signature in cursive script that reads "Kim Hoppe".

Kim Hoppe, CPA
Associate